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The Relationship between Vegetable Growers and the Supermarkets

- A Study of South Eastern Scotland in Comparison
to the Situation in Skåne, Sweden

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Abstract

The supermarkets in Europe have over the last decades gained increased control within the food supply chain. Globalisation has made it easier to trade and this comes with good and bad effects for the food system. In both Scotland and Sweden we find suppliers and producers within horticulture. These are getting increasingly affected by the supermarkets authority because they rely on supermarkets actions within the supply chain.

There is an increasing demand on producers to be competitive and innovative to be able to survive in the tougher market climate. There are different methods for developing a competitive strategy, such as better organisation of the producers or labelling of the produce. Another opportunity could be to increase the profit margin by adding value to the crops. The producers can also try to find other routes or methods to sell their produce through.

The aim of this study is to briefly describe the structure of the vegetable industry in Scotland as well as Skåne, Sweden. The industry will be analysed from an economic perspective with focus on the theory of Porter's common competition strategy and the model of five rivalry forces. I shall also describe the alternative market channels to supermarkets for sale of vegetables.

Since supermarkets are the dominating market channel for vegetable producers the relationship between supermarkets and the growers will be an important part of the study. Also the marketing situation for fresh produce shall be investigated along with examination of the hierarchies in the supply chain. The results from the different countries are compared to each other and similarities and differences will be evaluated.

The studies of literature and articles have been an important part of the investigation along with the case study. Several personal interviews have been carried out in Scotland as well as Sweden. The method which has been used for the case study is a qualitative examination with opened question during the interviews. This has made it possible for the respondents to easier express their opinions concerning the issue.

The results show that depending on the size and structure of the company the grower can achieve a more or less successful business relation to their buyers. Therefore it is important to choose a suitable market channel along with developing a good strategy to reach a competitive position on the horticultural market.

The conclusion of this study is that the relation between growers and the supermarkets are considered to be satisfying from some growers' perspective whilst other producers are negative to the supermarkets way of doing business. Some tendencies shown from the interviews are that larger companies, selling to supermarkets have a propensity to be more positive to the supermarkets than smaller growers. The larger companies also consider themselves unable to sell the produce through other channels. The growers dealing directly with their buyers and avoiding a middle hand are generally more positive to the situation and relationship to the supermarkets.

Sammanfattning

Dagligvaruhandeln i Europa har under de senaste årtiondena fått utökad kontroll av värdekedjan för livsmedel. Genom globaliseringen har det blivit lättare att bedriva handel, vilket har medfört både positiva och negativa effekter för värdekedjan. I Skottland såväl som i Sverige finns det leverantörer och producenter inom trädgårdsnäringen. Dessa påverkas av dagligvaruhandelns ökande auktoritet eftersom de är beroende av deras agerande.

Det finns ett ökande krav på odlarna att vara konkurrenskraftiga och innovativa för att kunna överleva i det hårdare klimatet på marknaden. Dessutom har det blivit viktigare att utveckla en konkurrenskraftig strategi med bättre organisation av producenterna samt marknadsföring. En annan möjlighet att öka odlarnas vinstmarginal kan vara genom vidareförädling av grönsaker. Odlarna har också alternativet att försöka hitta andra kanaler att sälja sina jordbruksprodukter genom.

Syftet med undersökningen är att kortfattat beskriva strukturen hos grönsakssektorn i Skottland och Sverige. Industrin kommer att analyseras ur ett ekonomiskt perspektiv med fokuseringen på Porters strategiska konkurrensteorier och femkraftsmodell. Även alternativa marknadskanaler till dagligvaruhandeln för försäljning av grönsaker kommer att behandlas.

Eftersom dagligvaruhandeln är den dominerande marknadskanalen till vilken odlarna säljer sin produktion kommer relationen mellan dessa att vara en viktig del av undersökningen. Även marknadsföringen av grönsaker kommer att undersökas tillsammans med hierarkierna i värdekedjan för livsmedel. Resultaten från de olika länderna kommer under utvärderingen visa de likheter och skillnader som existerar mellan industrin i Skottland jämfört med Skåne, Sverige.

Litteraturstudier har varit en viktig del av undersökningen kombinerat med en fallstudie med intervjuer utförda i de båda länderna. Metoden som använts i studien är en kvalitativ undersökning och respondenterna har intervjuats med stöd från öppna frågor. Detta har underlättat för deltagarna i studien att spekulera och utveckla sina åsikter rörande ämnet.

Resultatet visar att beroende av storleken och strukturen av företaget kan odlare uppnå en mer eller mindre framgångsrik relation till sina kunder. Detta bidrar till att det är viktigt att göra ett strategiskt val av passande marknadskanal för att få en konkurrenskraftig position på den hortikulturella marknaden.

Slutsatsen av undersökningen är att relationen mellan odlare och dagligvaruhandeln anses vara tillfredsställande enligt vissa odlares åsikter medan andra producenter är negativa till dagligvaruhandelns förhandlingsmetoder. Vissa tendenser som påvisas från fallstudien är att större företag som säljer till dagligvaruhandeln visar ansatser till att vara mer positiva till dagligvaruhandeln än mindre odlare. Dessutom anser större företagare inte att det finns något realistiskt alternativ till andra kunder än dagligvaruhandeln, som marknaden ser ut i dagsläget. Odlare som säljer direkt till sina kunder och undviker mellanhänder är även mer positiva till förhållandet med dagligvaruhandeln

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1 Introduction

Over the last decades supermarkets have gained a stronger position in the supply chain followed by increasing power towards other participants in the chain. This gives a tougher situation for the growers and the ability to be competitive towards their customer becomes increasingly more important. Even though the situation can be seen as negative from growers' perspective the pressure from buyers can also lead to improvements such as better organisation and more efficient growers. However there is a limit for how much the price pressure can continue: How many corners can the growers' cut before they run out of business? Therefore there is a need for a balance in the relationship between the supermarkets and their suppliers and there are certain improvements in the relation that can be made to give a more fruitful industry from both the grower's and supermarket's perspective. In this study I will use economic models, information about the industry and case studies to give a picture of the industry and market. I will also illustrate the strengths and weaknesses in the relation between growers and their customers and locate how and where improvements can be made.

1.1 Background

There has been a change in the market situation for fresh produce of vegetables and the relationship between growers and the supermarket. In the 1950s, supermarkets had 20 % of Britain's grocery spend but now they control 80 % and their market share is still increasing (Blythman 2004a). The supermarkets have developed from small independent retailers to become concentrated large multiple traders in a small number. This is the case with 60 % of all food sales in the UK (Seth 2001). The main operating supermarkets in Scotland are Tesco, Sainsbury's, Safeway, ASDA and Marks & Spencer. In Sweden the situation is developing in the same way as in Scotland but the supermarkets in Sweden have not become as efficient, innovative and powerful yet as the supermarkets in the UK. The occurrence with supermarket's own brand label products has not either reached the same increasing extent in Sweden as in the UK. However it is possible to see a movement in the Swedish industry following the development in the UK. The largest supermarkets in Sweden belong to Ica, Coop and Axfood.

The reason why it is interesting to compare the situation in Scotland and Sweden is due to similarities as well as differences between the countries. Both countries consist of big areas with rural characteristics and parts of the countries have unfavourable conditions for growing vegetables. The climate in the countries is also rather similar even though Scotland has milder winters and Sweden warmer summers. The temperature is more even in Scotland while it fluctuates more in Sweden. An interesting difference between the countries is the importance of tourism in Scotland, while Sweden spends much less marketing on this industry. Another distinction of the countries is how, due to their location, they will be affected in different degrees by the enlargement of the EU.

1.2 Subject

This project will consist of comparing studies in Scotland and Sweden, where the growers competition situation, with rising bargaining power for the buyers, is observed from Michael Porter's perspective along with own brand labelling. I will make a market comparison of vegetable producers and their relations to supermarkets in Scotland and Sweden.

1.3 Questions at issue

How is the relationship between vegetable producers and supermarkets built up and what are the routines in the supply chain between these parts?

How is the marketing strategy for vegetables edified from supermarkets as well as growers point of view?

How can the situation be improved for an increase in consumption of vegetables?

1.4 Objectives

My intention is to describe the structure of the vegetable industry and market in Scotland and analyse how different factors come in and affect the grower as well as the chosen routes available for selling the produce. The relationship between supermarkets and the growers along with the marketing situation for fresh produce will be investigated along with examination of the hierarchies in the supply chain. The results from the study will be compared to the situation in Sweden. Also improvements that can be made in the vegetable industry in both countries will be evaluated.

1.5 Outline

The method, which I have used in the study, is described in chapter 2. After this comes a brief summary of the economic theory. This gives the base for the analysis of the Scottish vegetable industry from Porter's perspective. Chapter 4 illustrates the market and industry in Scotland. Also the largest supermarkets operating in Britain are described briefly here. In chapter 5 is the case study described and also the interviewed peoples' background is presented. After this the results from the case study are outlined in chapter 6 and also compared to the situation in Skåne. In the next chapter the results are analysed and compared to the situation in Sweden. Finally in the discussion my own reflections are described and connected to the theory. In the last chapter the conclusions from my results are illustrated.

2 Method

The project consists of qualitative research with comparing studies in Scotland and Skåne. The first part of the assignment is a theoretical overview where the underlying economical models for analysing the issue are described. After this the vegetable industry in Scotland is studied and described. The grower's competitive situation is observed from Porter's perspective and the rising bargaining power for the buyers is analysed.

The second part of the investigations is the case study, which started in the south eastern area of Scotland around Edinburgh. I made interviews with mainly Scottish growers, but also other persons involved in the industry. The information I gained through my case study could then be used to get a feeling for the attitudes concerning the relation between growers and their buyers. Further on the situation in southern Sweden could be studied and compared to the state of affairs in south eastern Scotland.

2.1 Literature study

To analyse the subject it was necessary to study literature, articles and the Internet to get an overview of the structure of the vegetable industry in the countries. The connection between producers and their organisations should be studied and also the relation to the growers' customers, which are mainly the supermarkets.

It was also of main importance to study economical theories to obtain deeper information and be able to analyse the subject. By applying economical theories to the information of the vegetable industry it was possible to obtain an extensive picture of the issue. The focus in the theoretical studies was on the food supply chain along with economic models to analyse the competitive situation from the model of Porter's five forces.

The gathered information about the vegetable industry in Scotland and Skåne will be compared. The different growers should also be evaluated concerning how their strategies could lead to a more or less competitive position in the industry. It was also possible to see similarities and differences between the countries and evaluate improvements that could be made to give the industry a more competitive position in both countries.

2.2 Case study

Another part of the project was the qualitative case study, which was based on deep personal interviews with open questions. These were made mainly with vegetable growers supplying supermarkets, but also other persons relevant to the industry were interviewed to get deeper information about the topic. The main purpose of the explorative case study was to examine the situation for vegetable production and the relationship between growers and their buyers, mainly the supermarkets.

The primary data for the project was gained at first through 12 interviews made during the study of the industry in Scotland. I both interviewed growers and other people involved in the industry. To find the respondents I was guided by my supervisor in Edinburgh since he knew the industry and growers well and could give me name of persons which could be of interest to interview. The interviews in Scotland were carried out with 7 growers along with three other persons; a food advisor, another man working as a technical manager for a supermarket and one food journalist. All interviews except for one was recorded on tape since one of the growers didn't have time to meet but instead answered questions over e-mail. I also visited the farmer's market in Edinburgh to ask questions to the growers selling vegetables there. Since I only asked a few questions it was easier to make notes of the answers on paper.

After I had gathered the information I received from the investigation in Scotland I made five new interviews with Swedish growers to be able to compare their situation to the Scottish growers. To find Swedish candidates for the interviews I talked to my Swedish supervisor Lena Ekelund and also asked Gunnel Larsson and Åsa Bellner working for GRO Konsult Åkarp) and GRO (Kristianstad). These persons gave me advice on candidates in Skåne, which were suitable to interview. The interviews made with growers in Sweden contained the same type of questions as the ones made in Scotland. The study made in Sweden was not as extensive as the one made in Scotland due to the limitation in time.

2.2.1 Interviews Scotland

Several persons related to the vegetable industry in Scotland were interviewed during a period of time and a short description of their background follows in this chapter:

Mark Sutton is employed by the Scottish Agricultural College and working as an *advisor* to vegetable growers cultivating herbs, calabres, swedes, carrots, salads and onions. He has been working within the industry as an advisor during several decades (Sutton, M 2004).

Joanna Blythman is a *food journalist* and campaigner and has recently written a book backed by Friends of the Earth named 'Shopped – The shocking power of British Supermarkets'. In this book she describes the relation between buyers and suppliers and reveals research and interviews (Blythman 2004).

Johnathan Sutton is a *category technical manager* working for Tesco in a team with 4 buyers. He has product managed imported and British vegetables within the UK for 6 years and was before working for Unilever. He's in contact with suppliers and will have meeting sometimes during the year. Mostly they communicate over data since they handle 200 direct suppliers and 50-60 000 growers (Sutton, J 2004).

The *Scottish growers* which were interviewed had farms in eastern Scotland in the area around Edinburgh. This is a favourable region for growing vegetables and the horticultural sector has most of the growers placed here. Seven of the participating growers were interviewed during 1,5 hour each. This occurred under personal meetings where I visited the company, got to see the production and then could have a dialogue in a calmer environment such as an office. Unfortunately one of the growers (the one labelled "G") did not have time for a meeting so instead he answered some questions over e-mail. Therefore the results from him are not as extensive as my results from the other interviews. Another part of the investigation was the visit to the *farmer's market* in Edinburgh during one afternoon. This gave me an opportunity to talk to growers selling vegetables direct to the consumers about what they thought were the strengths and weaknesses of using farmer's markets. I also investigated if they sold through other channels and what their experiences from that relation was. The result from this study is described in chapter 6.2.4.

2.2.2 Interviews Skåne

The Swedish growers were situated in southern Sweden in two different areas. Three of the growers were situated in western Skåne around Malmö and the other two in north eastern Skåne in Kristianstad. These areas are also favourable for growing vegetables. The growers were interviewed during ~1,5 hour each. The interviews were carried out together with two horticulturists who also asked a number of questions. I did not have time to get as extensive information from the interviews performed in Sweden and therefore the results will be less detailed than the ones from the interviews in Scotland. I have chosen to concentrate on the situation in Scotland and will compare it to my results from Skåne.

2.3 The author's frame of reference

My earlier experiences and knowledge in the area affect the perspective in which I have described and analysed the vegetable industry. I have studied horticulture and economics at SLU (Swedish University of Agricultural Sciences) in Alnarp, Sweden in combination with environmental studies and rural development at SAC (Scottish Agricultural College) in Edinburgh, Scotland. The theories and methods which have been used in the study comes from knowledge gained at the university but also from information in media and own experiences.

2.4 Limitation

The subject has had to be limited to make it possible to carry out the investigation within the available time limits. I decided to focus on the relation between vegetable growers and the supermarkets in Scotland and compare it to the situation in Skåne. Furthermore I will investigate the market situation and different marketing strategies.

3 Economic frameworks

For the economic view of the investigation, studies of literature and articles within the area have been an essential part. The most important part in economic theory for this study is Porter's common competition strategy and the model of Porter's five forces, where the industry is described in relation to the competitive forces surrounding it. After the case study in Scotland was carried out some articles written by Bokelman and Lentz relating to the vegetable sector from a European perspective were studied. This information could later on be used for the analyses of the results from the case study. However I did not have this information while forming the questions to the growers.

3.1 Porter's common competition strategy

According to Porter's theory there are three general strategies for improving the competition capacity. To gain competition advantages the company must make strategical choices and avoid being everything for everybody. The strategies include some important movements the company needs to consider but also risks, which are important to try to avoid. The formulation of a strategy is about positioning the company so its capabilities provide the best defence against competitive force and influencing balance of forces through strategic moves. It is important to predict changes in factors and underlying forces to make it possible to respond to the industry's needs (Porter 1998).

3.1.1 Low price

The low price strategy involves having lower costs than the competitors in the industry and may be the clearest of the strategies. The company which have chosen this sort of strategy has both broad extent and delivers to many industry segments. Factors that affect the success of the company are:

- Scale economical advantages
- Superior technology
- Access to raw material

That the low price producer finds and exploits all possibilities to costs superior is important. It is common that the producer sells standard goods without added value when the distribution chain is strong. However the cost leader should not ignore the grounds for differentiation. A problem can be if the buyers don't apprehend the product as comparable or acceptable. In that case the producer has to sell the produce under competitor's price, which can eliminate the advantages. This makes it essential that the cost superior is as effective with differentiation as the competitors (Porter 1998).

3.1.2 Differentiation

The company with a differentiation strategy is offering something unique in the industry. The company chooses characteristics, which many customers in the industry find important and positions after the customer needs. The reward is higher prices and the variables are specific for every industry and can be decided on basis of:

- Product
- Delivery system
- Marketing method
- Other factors

The company choosing the differentiation strategy must search for cost efficient methods since the competition advantage otherwise could be eliminated through bad cost position (Porter 1998).

3.1.3 Focusing

The company having this strategy can choose to focus on a certain component such as:

- Buyer group
- Certain segment of assortment
- Fixed geographical market

The company adapts a strategy to serve this segment better than the competitors by optimising the strategies and reaching a competitive advantage towards the target groups. The focus strategy holds two varieties:

The cost focusing company tries to reach cost advantage in the segment and the differentiation focus company differentiates against the industry. In this way the company gains a competitive advantage through concentration on its exclusive segments. The wideness of the target group is a scale question and not a sort question but the real meaning in focusing is the exploitation of a small target group, different from the rest of the industry. According to Porter all of the three general strategies are efficient ways to gain and keep a competitive advantage in the industry (Porter 1998).

3.1.4 Stuck companies

The companies which choose to not follow any of these strategies risk missing out on market share, capital and the ability for low cost production. They can not bet on the industry covering differentiation which is necessary to remove the need of a low cost position. At the same time they are not focusing to create differentiation or low cost position. This leads to low profit margin and the loss of large volume customers demanding low prices. The alternative is to bargain away the profit to get business from low cost companies. The companies also lose high margin business to companies focusing on these groups or have achieved overarching differentiation. Company suffers probably from confused business environment with bad coordinated organisational solutions and motivation systems. The conclusion is that the company needs to make a principal strategically decision. The business must make measures to bring about cost superior or at least cost savings, which means investments to modernise and force to buy market share. Otherwise they need to orientate to certain target group (focusing) or gain a unique position (differentiation). The latest two alternatives can lead to shrinkage in market share and absolute sale (Porter 1998).

3.1.5 Competition analysis

The question why some firms can perform activities at lower costs than others can be answered by looking at how the companies use different drivers. The most important drivers of competitive advantage in activity include:

- Scale
- Cumulative learning in the activity
- Linkages between the activity and other factors
- Ability to share activity with other business units
- Pattern of capacity utilization in activity over relevant cycle
- Activity's location
- The timing of investment choices in activity
- Extent of vertical integration in performing the activity
- Institutional factors affecting how activity is performed as government regulation
- Firms policy choice about how to configure the activity independent of other drivers

The same drivers both determine relative costs and differentiation. Then again the mix and significance of individual drivers varies by activity, firm and industry. The sustainability of competitive advantage depends on a number of competitive advantages in the value chain and the particular drivers underlying them. The brand reputation is in addition a source of cost advantage since it gives less need for marketing. Also source differentiation can lead to a premium price (Porter 1979).

3.2 Porters 5 forces

To analyse the competitiveness of the vegetable industry Porter's five forces have been used (see Figure 1). This economic model sees the industry in the middle affected by the surrounding forces.

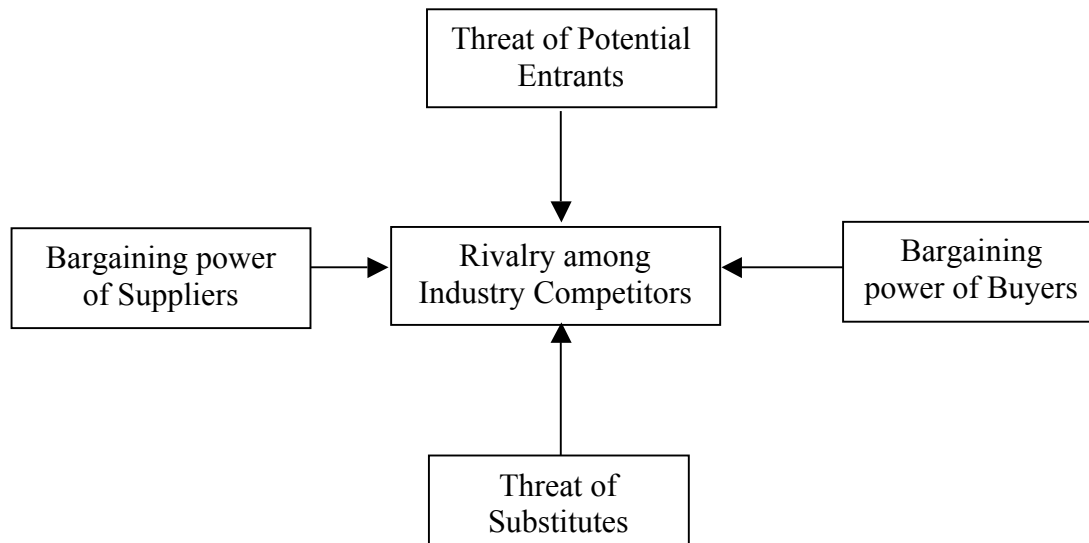


Figure 1. Model of Porter's five forces (Porter 1998)

3.2.1 Rivalry between existing companies

Rivalry between existing companies occurs through tactic measures such as price initiatives, marketing campaigns, product introduction on the market, increased customer services and guarantee commitments. The different methods help the competing companies gaining a more advantageous position and the rivalry increases when one or several competitors feel the pressure or see an opportunity to improve its position. Competition based on the price situation is highly unstable and will quite likely leave the entire industry worse off in profitability. Price cuts can easily be matched by rivals, which lead to lower revenues unless the price elasticity of the industry is high enough. Advertising battles can on the opposite expands the demand or enhance the level of product differentiation and benefit all firms in the industry (Porter 1998). The competition intensity varies and is decided through a number of factors such as:

- Many or equal competitors
- Slow industry growth
- High fixed production or storage costs
- No differentiation, no adjustment costs
- By leaps capacity increase
- Heterogeneous competitors
- High strategically value
- High shut down costs

The degree of rivalry also varies and changes in intensity. When an industry matures its growth rate declines and the rivalry gets more intense, the profits decrease and often a shake-out comes. Many of the weaker companies are forced out by the stronger competitors, but through strategic shifts the company can gain a stronger position. Exit barriers and entry barriers are related and show an important aspect of the industry analysis. As an example substantial economies of scale in production are usually associated with specialised assets and also the presence of proprietary technology. The rivalry depends on factors such as:

- Exit barriers
- Industry concentration
- Fixed costs/Value added
- Industry growth
- Intermittent overcapacity
- Product differences
- Switching costs
- Brand identity
- Diversity of rivals
- Corporate stakes (Porter 1998)

3.2.2 Barriers to entry / threat of entry

Threat of entry appears when new entrants bring new capacity and the competition will be higher the easier it is for other companies to enter the industry. The market environment including market share, prices and customer loyalty will get affected by the new entrant's capacity. The threat of new entries will depend on the extent to which there are barriers to entry and examples of these are:

- Economies of scale
- Product differentiation
- Capital requirements
- Cost disadvantages independent of size
- Access to distribution channels (<http://www.themanager.org/Models/p5f.htm>)

3.2.3 Threat of substitutes

The firms in the industry are also competing with substitute products from other industries. These limit the profit in an industry by placing a ceiling on the prices the firms in the industry can charge. To identify substitute products you need to search for other products, which can perform the same functions as the industry product. There are substitute products that need more attention than others. These are the ones subject to trends improving the price-performance trade-off with the industry's product or produced by industries earning high profits (Porter 1998).

3.2.4 Buyers bargaining power

The buyers compete with the industry by squeezing the prices, bargaining for higher quality or more services or playing the competitors against each other on cost of the industry's profit. The strength at one and each of the industry's most important buyer groups depends on a number of factors affecting the market situation and on the relative importance of its purchase from the industry compared with its overall business. A buyer group is powerful during the following circumstances:

- Concentrated or buying big volumes in relation to the supplier's sale
- The produce it buys from the industry constitute an important part of the buyers costs or purchase

- The produce it buys from the industry is standardised or undifferentiated
- Only affected by few adaptation costs
- It gains small profit
- The industry's product is hardly important for the quality at the buyer's products or services
- The buyer has full information

When these factors change with time or as a result of a company's strategic action, the power of the buyers rises or fall. For example when the buyers become more concentrated and pass on control to large chains, the industry comes under increasing pressure and suffers from falling margins. A company's choice of buyer groups should be viewed as a crucial strategic decision. A company can improve its position by finding buyers who possess the least power to influence the company (buyer selection). This occurs when a company sells to a single industry segment, which exercise less power (and are less price sensitive) than others. As a rule a company can sell to powerful buyers and still come away with above average profitability only if it's a low cost producer in its industry or if its product enjoys some unusual, if not unique, features. Unfortunately some industries don't enjoy luxury of selecting buyers (Porter 1998).

3.2.5 Suppliers bargaining power

The bargaining power of the suppliers to the industry participants can rise when there are threats to raise prices or reduce the quality of the purchased product. Thereby suppliers can squeeze profitability out of an industry, which is unable to recover the cost increases in its own prices. The conditions making powerful suppliers are equal to the ones making buyers powerful. If the following circumstances appear the supplier group are considered to be powerful:

- Supplier concentration
- Importance of volume to supplier
- Differentiation of inputs
- Impact of inputs on cost or differentiation
- Switching costs of firms in the industry
- Presence of substitute inputs
- Threat of forward integration
- Cost relative to total purchases in industry

The conditions determining suppliers' power are subject to change and often out of the firm's control. However the firm can sometimes improve its situation through strategy. It can for example enhance its threat of backward integration or seek to eliminate switching costs. Government regulations can set limits on the behaviour of firms as suppliers or buyers. The government can also affect the position of an industry with substitutes through regulations, subsidies or other means. In strategic analysis it is illuminating to consider how government affects competition through the five competitive forces (Porter 1998).

3.3 Partnerships between producers and trade

Over the last years the market for vegetables has been suffering from overproduction, leading to an insufficient price situation. This shows there is a need for better orientation on consumer

demands since the changing requests are driving the marketing system. The progress in information and communication technology has also led to a change in the sales system for vegetables. Since whole supermarket chains are competing with each other, the coordinating activities in the delivering chain must be efficient and competitive.

Conflicts between retailers and producers appear frequently about introduction of new products and conditions of supply. One reason for the conflicts is the mutual striving for power when both parties try to maximize their profit. The asymmetrical power between producers and trade enterprises in the distribution system affects the way of arranging coordination. The conflict seen in the unbalanced information system is a result of insufficient information exchange. There are empirical investigations of negotiations between retail and producers which shows that half of the negotiation time on purchase is dropped on price and conditions. Other discussions are about market data, product information and actions for sales promotion.

Trade has greater economic power in business relations against suppliers and the branded article concept plays hardly any role in vegetable field compared to other consumption goods. Another problem is that the oversupply of vegetables makes suppliers interchangeable. There are also several inefficiencies existing in the sales system and the quality of products in sales is unsatisfactory. The reason for this can be that the department for fruit and vegetables in shops are understaffed and missing qualified employees combined with a non attractive presentation of the product. The retailers are trying to escape the downward pressure on prices by up valuation of the fruit and vegetable department, since it has excessive yield meaning of sales with 8-12 of sales volume in retail trade (Bokelman & Lentz 2000).

In Britain there is a pressure on the major customers to supply year round fresh produce. Even if the British consumers probably eat less fresh produce the imports are increasing, which means that less produce are grown in Britain. The future trends show that multiples are increasingly putting emphasis on being a competent and reliable specialist supplier. To survive the grower must be world class and specialise in world competitive crops. Technical and financial competence is then the key. The formerly business for growers was with independent retailers, but now the customer base is contracted significantly and trade consists of a few giant multiples (Grower 1999).

3.4 The structure of the horticultural sector

The vegetable sector has for a long time been dominated by spot markets. However this has changed and the retailers are backward integrating a part of the wholesale business. This is resulting in fewer buyers and new trade practices due to the market power of retailers. In response to this a structural change of the farm can be observed. Farms are growing and specialising on a few crops, forming new cooperatives and alliances and providing customer designed products. The daily spot market buying is declining and it is difficult for smaller growers to market their products. The new trade practices and consumers demanding year round supplies of fresh produce and more convenient fresh produce has a tremendous impact of the wholesale sector and the structure of vegetable and fruit farms. There has been an observed increase in production area but a decreasing number of farms and this means an increase in farm size. There is a broad range of different developments of the farms to make it possible to adapt to the changed conditions.

The technical progress gives higher capital input and increases fixed costs of production but lowers labour input and variable costs. This leads to larger farms with the same amount of labour. The improvements of transportation and communication support the development of trade and market size. For a long time the horticultural sector has been dominated by small family operated farms in large number. The reason why we see auction spot markets for vegetables could be because this structure has been the most efficient way to organise an exchange between a large numbers of firms. The auction is an efficient marketing mechanism in an industry characterized by many suppliers; many buyers and growers as price takers with standardized products, uniform packaging and transparency. Over the last decade the tremendous consolidation in the retail sector was accompanied by high competition. In Europe retailers' market share increased from 13,8 % in 1990 to 26,1 % in 2000 and several countries are already dominated by 5 retail chains. Besides have fresh produce and meat become product categories for which shoppers will switch stores and the department has proofed to be the key factor in building store image.

The traditional spot markets could not meet the special demands of large retailers since it's difficult for retailers to plan sales promotions and ensure supply. As a result the retailers increasingly looked for other sources of supply and started to contract directly with large growers' to secure the desired quantity and quality of the produce. The retail chains introduced their own brand label products in fresh produce market in order to increase differentiation. Thereby the retail chains had to take all steps to ensure consistency in quantity and quality of their own brand label products. Furthermore they were interested in year round supply, which can not be accomplished on spot market where the buyers and sellers are anonymous. Thus the whole market system was undergoing a dramatic transformation. The retail chains have backward integrated wholesale activities and tin orders to squeeze transaction costs out of supply chain. At the same time more supermarkets are trying to reduce the number of fresh suppliers and pass responsibility together with associated costs for quality control, storage and distribution to their suppliers, which pose challenges and opportunities for suppliers. A response to this can be seen in the marketing structure with grower associations.

The retailer reduces the number of suppliers to reduce transaction costs and even larger farms are under market pressure. Large farms are often specialised on a small number of crops and try to increase the number of products or develop new services. The bundle supplies of a number of farmers are under one umbrella to join forces with competitors or to form strategic alliances with firms in distant part of world and thereby being able to offer year round supply. There is a possibility that one farmer with direct access to the market channel can act as an integrator and contracting other growers, which are specialised in the production of a specific crop. Another tendency is to form closed membership co-operatives to make planning, coordinating and controlling activities among members easier than in an open membership cooperative. A part of the integrated supply chain in the future will be the development of new products with help from marketing research as well as investments in information technology. It is thereby easier for a group to address challenges than a single grower. The performance of the new structures will influence the power distribution in supply chain along the long run (Lentz 2004).

3.5 Summary of Chapter 3

Chapter 3 involves a description of the economic theory used as a base for an evaluation of the vegetable industry. The model for the analysis is Porters five forces combined with Porters

common competition strategy. This gives a picture of the industry by looking at the competitive forces. These are rivalry between existing companies, threat of substitutes, buyers bargaining power and suppliers bargaining power combined with barriers to entry or the threat of entry. The forces put a pressure onto the firm and make it important for the company to make a strategic choice to gain a competitive position in the industry.

The different strategies to use come with positive and negative effects for the company combined with risks. The low price company competes with lower costs whilst the differentiation strategy involves offering a unique product. The focusing company in addition chooses to focus on a certain market segment. It is preferred to have a clear strategy and avoid mixing them because this can make the company being stuck in the middle making a low profit with a mixed strategy.

The last part of the chapter involves theory more relevant to the horticultural sector in general and describes the changes in the industry. The retail sector has developed from having spot markets and several buyers to be more concentrated with retailers backward integrating a part of the wholesale business. This is resulting in fewer buyers and new trade practices due to the market power of retailers. The development has resulted in a structural change of the farm where larger companies are concentrating on few crops. The greater power from supermarkets in relation to their suppliers shows the importance of growers to reach a better organisation and join partnerships with trade.

4 The vegetable industry and market in Scotland

There has been a change in the structure of the vegetable industry in Scotland and the production has gradually become more concentrated to the southern and eastern parts of the country. The reason for this is the more approving factors such as favourable soil and milder climate, which makes it easier for the growers to get a competitive market position. The southern and eastern parts have also a closer position to the market since northern and western Scotland (the Highlands) has rural characteristics (Sutton 1990).

The Scottish growers, which participated in the case study, were placed in the surrounding areas of Edinburgh. Four growers had their farms in Fife or Angus and three growers were East Lothian and came from the Edinburgh region. The final grower was placed in the South of Scotland. See figure 2 to get an overview of the countries growing regions.

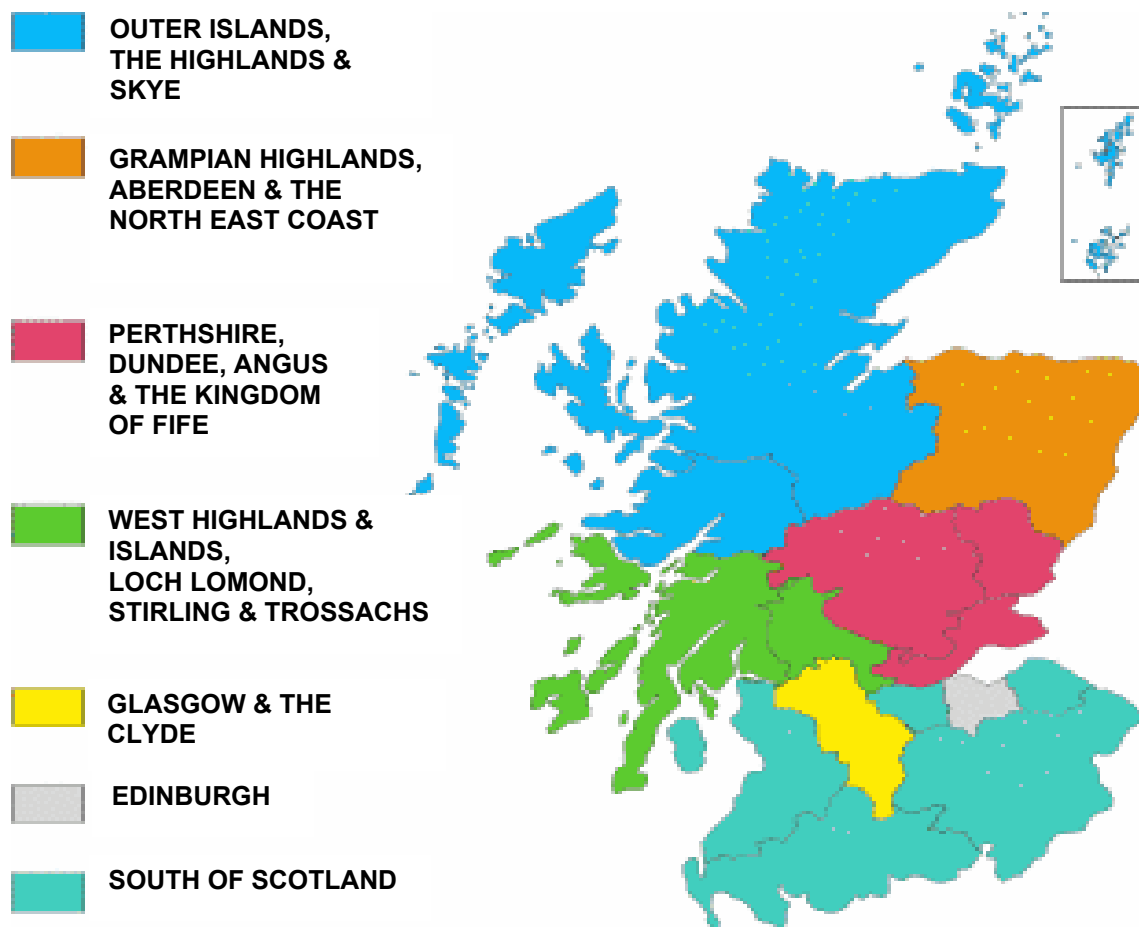


Figure 2. Scotland's growing regions
 Source: <http://www.taste-of-scotland.com/map.html>

The total area of grown vegetables in Scotland was 11,474 ha in 1995 but dropped by 11 % to 10,158 ha in 1999. The growing areas of brussels sprouts and carrots increased but the remainder vegetables were reduced. During the last years there has been a development with decrease in the number of growers but an increase in the grown area due to larger farms specialising in fewer crops. Figure 3 shows the proportions of vegetables (SASA 1999).

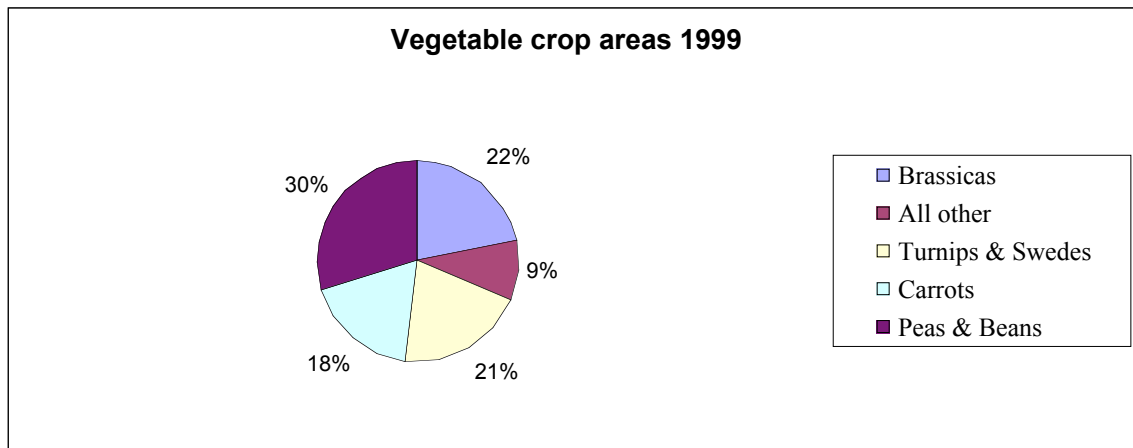


Figure 3. Vegetables grown in Scotland in 1999. Source:www.sasa.gov.uk

4.1 Outline of relation between production, organisation and customers

The growers can make different strategic choices about how to market the vegetables. If selling the produce to supermarkets the grower can sell it directly or have a middle hand such as cooperative, market organisation or pack house. When choosing another market channel such as wholesale market the produce is passed on to another step such as small retailers or restaurant trade. They can also choose to deliver directly to restaurant trade without middle hand. When growers sell their produce through farm shop, farmers market or vegetable box schemes the grower gets a closer direct contact to the consumers.

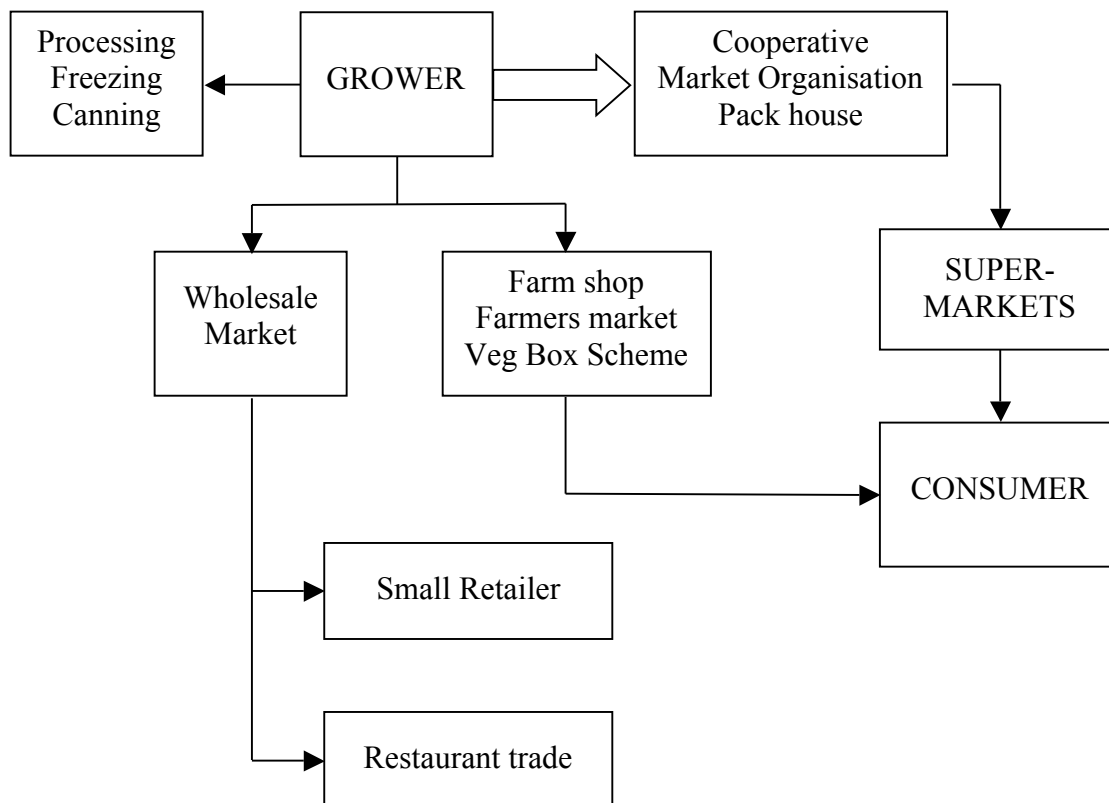


Figure 4. Relation between production, organisation and customers in vegetable industry
Source: McLeod 2004 (personal communication)

4.1.1 Organisation of growers

Producers are able to gain more power by cooperation in producer organisations, marketing organisations or co-operatives. This makes it easier for the suppliers to control overproduction and expand their market. The supermarkets can also collaborate more straightforward with the suppliers if they are organised together with larger amounts of produce and smaller risk. The horticultural sector have been organised to support the requirements of the supermarkets, which have increased space and range to the products and generated consumer demand (The Scottish Office).

According to Plimsoll Publishing, a company analysing industries in the UK, smaller companies within horticulture are not being forced out of business market by larger counterparts. Instead larger companies are fighting each other and leaving smaller companies to prosper. The analysis is focusing on the top 150 companies in the UK fresh produce industry and the companies should be pinnacles of financial performance. With the overall market showing healthy turnaround many major players have still failed to exploit the favourable conditions. The UK Fresh Produce industry is definitely congested at the top and there is clear evidence of stagnation at the top of the market. Many companies have also rising costs and the future direction looks uncertain. The size does not necessarily lead to success in the fresh produce industry. Some of the leading companies did not make profit last year and despite their size they are less profitable than the smaller market players. One reason can be the ageing set of directors since 24 % of top 150 company directors are aged over 60 and well paid. You can wonder how the future performance will change after the directors retire. Smaller companies have a little risk of takeover of major companies because it doesn't offer a strategic opportunity (Grower, August 2004).

British horticultural growers are joining the Horticultural Development Council (HDC). The organisation is a statutory body which administer the collection of an industry levy to fund essential near-market research and development for the benefit of UK horticulture. To ensure that this near-market R&D is correctly tuned to meet the needs of industry, growers and farmers play a vital role in setting research strategies in each of the crop sectors and in the decision making process for individual research projects. For industry to truly benefit from this research it is essential that the results are communicated in an effective and timely manner. The HDC organises many industry events throughout the year, for all of its members, in addition to publishing a range of fact sheets, videos, reports, software programmes, HDC News and HDC's monthly journal (<http://www.hdc.org.uk/aboutHDC/aboutHDC.htm>). There have been complaints on the organisation from several growers since they do not think the levies are used in an efficient way. There for the question about whether the HDC should continue their work or not are evaluated in the interviews of the Scottish respondents in the case study (see chapter 5.4.2).

4.1.2 The supply chain and market channels for vegetables

When selling the crops there are different channels available for the producers and it is important to make a strategic choice while evaluating which channels suiting the company best. See Chapters 3.1 and 3.2 for more detailed information about Porter's five forces and competition analysis. The *supply chain* is a network of facilities and distribution options that performs the functions of procurement of materials; transformation of these materials into intermediate and finished products; and distribution of these finished products to customers.

A supply chain essentially has three main parts, the supply, manufacturing and distribution:

- The supply side concentrates on how, where from and when raw materials are procured and supplied to manufacturing
- Manufacturing converts these raw materials to finished products
- Distribution ensures that these finished products reach the final customers through a network of distributors, warehouses and retailers

The chain can be said to start with the suppliers of your suppliers and ends with the customers of your customer (<http://www.brainyencyclopedia.com/encyclopedia>).

Farm shop, farmers' market and vegetable box schemes are different forms of direct marketing to the consumer. The market channels are part of an interesting future growth and there's a demand from consumers to increase these routes. Farmers' markets are wished to be

held more often than twice a month and it would be better to make it a part of the shopping routine rather than being events. The growth in the best markets has developed strongly but some customer holdings and stallholder takings are static or declining. The answer could be that the offering has not been improved since first opening. The organisers of Farmer's Market should recognise its challenging retail operations, requiring strong management skills and specialised training (Grower, week 23 August 2004, p 23).

Wholesale market: The wholesaler buys goods in large quantities of goods from their manufacturers or importers, and then sells smaller quantities to retailers, who in turn sell to the general public (<http://www.brainyencyclopedia.com>). It is hard for small independent grocers, greengrocers, wholesalers and increasingly, other trades to survive the hard competition from the supermarkets. Manufacturers are also in a weaker position since they have less power than before (Corporate Watch 2003).

A supermarket is a store or market that sells a wide variety of goods including food and drinks, drugs, clothes and other household products that are consumed regularly. It is often part of a chain that owns or controls (sometimes by franchise) other supermarkets located in the same or other towns; this increases the opportunities for economies of scale. Supermarkets usually offer products at low prices by reducing margins. To maintain a profit supermarkets attempt to make up for the low margins with a high volume of sales. Customers usually shop putting their products into trolleys or baskets and pay for the products at the check-out. A larger supermarket combined with a department store is known as a hypermarket. Other services that supermarkets may have include cafes, crèches, photo development and pharmacies. In Britain, Denmark and other European countries the proliferation of out-of-town supermarkets has been blamed for the disappearance of smaller, local grocery stores and for increased dependency on the motor car (<http://www.brainyencyclopedia.com>).

4.2 The UK supermarkets

In the UK the supermarket chains control 80 % of the market channel to which producers can sell their produce through. Supermarkets on the other hand have hundreds of suppliers all over the world. This situation makes suppliers closely involved and affected in what supermarkets do and the decisions of a few buyers can make the difference between yield and loss (Corporate Watch 2003). The owners, managers and employees of production firms get easy

put out of business when the successful supermarket chains gain stronger power. Since the supermarkets sell the majority of fresh food the supermarkets have great power here as well. Horticulturalists and farmers are normally suppliers and primary producers and several of them rather small (Seth 2001).

From the *supermarket's perspective* the competition is mainly coming from the other big retailers, but it is a certain market share. There is also some competition from German retailers as Aldi and Lidl but mostly on Ireland, since the consumers there are more price sensitive. The consumers in England and Scotland are generally more loyal and seem to prefer higher quality products for higher price (Sutton, J 2004).



4.2.1 Tesco

Tesco PLC is the largest British supermarket chain in the UK and listed on the London Stock Exchange under the symbol TSCO. It has significant operations in other countries. Tesco was originally specialising in food but have moved into areas such as clothes, consumer electronics and cars. By 2003 it had over 2000 stores, including a large number of convenience stores in the UK. Tesco was founded in 1919 and the Tesco brand first appeared in 1924. The first Tesco supermarket was opened in 1956 and its first "superstore" was opened in 1968. It introduced a loyalty card in 1995 and later an Internet shopping service. During the 1990s it expanded into eastern Europe, Ireland and East Asia. In July 2001 it became involved in internet grocery retailing in the USA when it obtained a 35% stake in Grocery Works. In addition to opening its own stores, Tesco has expanded by taking over other chains, including supermarkets in Britain, Poland, Japan, Turkey and Thailand (<http://www.brainyencyclopedia.com>).



4.2.2 ASDA

ASDA is a chain of supermarkets offering food, clothing and general merchandise products. The name is a contraction of *Associated Dairies* and was founded in 1965 by a group of farmers from Yorkshire and has 259 stores and 19 depots across the UK. It became a subsidiary of Wal-Mart in July 1999. At last count the company had 259 stores, 19 "depots" and the chain employs 122,000 persons (August 2003). The company is also engaged in property development through its subsidiary company, *Gazeley Properties Limited*. At the moment ASDA is the second largest supermarket in the UK after Tesco and their competition with low prices have started something of a price war between the two chains, which the other supermarkets also gets affected by (<http://www.brainyencyclopedia.com>).



4.2.3 Sainsbury's

J Sainsbury plc is the parent company of **Sainsbury's Supermarkets Ltd**, commonly known as **Sainsbury's**, which is a chain of supermarkets in the United Kingdom. The J Sainsbury group has also interests in property and banking. The supermarkets were established in 1869 and until 1973 it was still wholly owned by the Sainsbury family. However it was later floated in what was at the time the largest ever flotation on the London Stock Exchange. Today the family retain approximately 30% of the shares.

In 1987 Sainsbury's took over the US chain Shaw's Supermarkets and in March 2004 it was announced that it was selling the chain to Albertsons Inc for \$2.5 billion. Sainsbury's was for decades the premier supermarket in the UK, it lost this position however in the mid 1990s to Tesco, further slipping to No.3 in mid 2003 behind Wal-Mart backed Asda. The supermarket chain has yet to recover from this, with profits and sales growth consistently below that of its main rivals (<http://www.brainyencyclopedia.com>).

The appointment of Sir Peter Davis as CEO in March 2000 was seen as an attempt to regain market position and if he is judged on that aim then he can be said to have failed. During his term Sainsbury's was demoted to third in the UK grocery market. However in his first two years he raised profits above targets and oversaw an almost £ 2 Bn upgrade of stores, distribution and IT equipment. At the end of March 2004 Sir Peter was promoted to Chairman and was replaced as CEO by Justin King, who joins Sainsbury's from Marks and Spencer plc. Mr. King was also previously a managing director at Asda (<http://www.brainyencyclopedia.com>).



4.2.4 Safeway

Safeway is a chain of supermarkets and convenience stores in the UK, owned by Wm Morrison Supermarkets. The chain was founded in 1962 by Safeway from the US but was sold in 1987 and listed on the London Stock Exchange as Safeway plc. After some unprofitable years in the late 1990s it recovered with a program of store refurbishments. In 2002 it had the fourth largest supermarket sales in the UK. However after perceptions that it was growing more slowly than other large UK chains and with a low share price, various takeover rumours circulated during 2002.

In January 2003, the much smaller Wm Morrison Supermarkets made an offer to purchase the chain. However this served only to start a stampede of other potential buyers: J Sainsbury plc, ASDA / Wal-Mart, Kohlberg Kravis Roberts & Co, Trackdean Investments Limited (controlled by Philip Green, owner of BHS and Arcadia) and Tesco all said they were considering making offers. They were all asked to make submissions to the Office of Fair Trading (OFT) for approval under the Fair Trading Act 1973. The report of the Competition Commission was made public and a takeover of Safeway by Sainsbury, ASDA or Tesco was "expected to operate against the public interest, and should be prohibited". However a takeover by Morrisons was held to be acceptable on the condition that 53 stores of the combined operation be sold, due to local competition issues.

On 15 December, Morrisons, the only remaining bidder, made a new offer and in February 2004 the shareholders of both Wm Morrison and Safeway voted to approved the merger of the two companies and in March, 2004 the takeover by Morrisons was completed (<http://www.brainyencyclopedia.com>).



4.2.5 Co-op

In Britain most "Co-op" supermarkets (and convenience stores) are owned by the local Co-operative society; for example, in the South West of England, the Plymouth and South West

Co-operative Society owns a majority of the Co-op branded supermarkets. The nationwide Co-operative Group (formerly the Co-operative Wholesale Society), also owns many of its own supermarkets, as well as supplying goods wholesale to the majority of British co-operative societies. As with all other co-operative businesses, customers of the Co-op supermarkets can become members of the co-operative society that owns the supermarket, which enables them to have some say in the operation of the business (<http://www.brainyencyclopedia.com>).



4.2.6 Marks and Spencer

Marks and Spencer plc (known also as M&S) is the largest retailer in the United Kingdom by sales. It mainly sells clothing and food and also has international outlets. Marks and Spencer made their reputation in the 20th century on a policy of only selling British-made goods, relying on quality rather than price to encourage custom. During the 1980s and 1990s, they went back on this policy. Financial troubles and their inability to appeal to younger customers did not alter the general trend. However, in 2001, with changes in their business focus profits rose sharply and M&S recovered much of its market share. Other changes to tradition included accepting credit cards and opening their stores on Sunday occasionally. They attempted to break into the US market, and also into the French market. This latter was particularly unsuccessful, and eventually they were forced to close all their French stores, though because of the legislation set in place by the French government to protect their labour force, this was a costlier exercise than the Marks and Spencer management anticipated.

Unlike most of its rivals M&S resisted the lure of television advertising and it was not until the mid-1990s that the first TV commercials for M&S clothing were broadcast. The first Marks and Spencer store in central Asia was built in Kabul, Afghanistan in the 1960s. The store was later shut down as the mood of the city turned conservative. Marks and Spencer was recently (2004) in the throes of an attempted takeover by a consortium of investors led by Arcadia boss, Philip Green. In July a recovery plan was announced which would involve selling off the financial services business to HSBC, buying control of the Per Una range, closing the Gateshead Life store and stopping the expansion of its Simply Food line of stores. Philip Green withdrew his takeover bid after failing to get sufficient backing from shareholders (<http://www.brainyencyclopedia.com>).

4.3 Produce schemes

The produce schemes which supermarkets set up for their suppliers involve rules for criteria's the produce must pass to be accepted for sale. The two schemes of main importance are Nature's Choice and Assured Produce for growers selling their produce to supermarkets.

Nature's choice holds standards set up by Tesco and was an early initiative written 12 years ago, before both Assured Produce and EUREPGAP (the EU standards). All UK growers of fresh fruit, vegetables, flowers and other ornamental plants have to meet strict guidelines in protecting wildlife, the land and the farm's biodiversity in order to do business with Tesco. Pesticides are a very motive issue together with the environment; water use and recycling energy use (Sutton, J.). The guidelines are being introduced to suppliers around the world, particularly Spain and the Netherlands, and as far field as Kenya, Australia and New Zealand

and in 2006 the goal is that all suppliers to Tesco shall be accredited. Growers are asked to draw up a farm conservation plan, which guides them in protecting important wildlife and landscapes. Tesco has pilot schemes that monitor the effects of Nature's Choice on farmland birds. In addition, British suppliers are compliant with the NFU (National Farmers Union) Assured Produce Scheme (<http://www.tescofarming.com>).

Tesco subcontracts the inspection out to audit companies such as checkmate international and BBQI. These companies check to make sure the standards are followed. There's one global standard and within this there are three levels; bronze, silver and gold. Tesco encourage the growers to get audited as soon as possible and find out where their level is. Then they should move on from there but it is easier in the UK, because there is basically one audit per farm. The standards are based on risk assessment so in a period of time everybody will be audited. The paperwork can sometimes be disliked by the growers but most of the recordkeeping is legally requirements. Nature's Choice is attempted to be made simple and when the standards were written the advisory comity included 3 or 4 growers (Sutton, J. 2004).

Assured Produce holds standards set up by rest of the other supermarket chains in cooperation with the National Farming Union (NFU). It addresses the important issues concerning the production of fruit, salads and vegetables and is an industry wide initiative. The scheme promotes safe and environmentally responsible production of fruit, salads and vegetables through the use of integrated crop management (ICM). This is a philosophy that recognises the need for crop production to be both economically and environmentally sustainable. APS is designed to maintain consumers' confidence in the safety and integrity of the produce they eat. Growers must follow the best production advice contained in the crop specific protocols that form the basis of the scheme. It is an independently assessed assurance scheme (<http://www.assuredproduce.co.uk/Aproduce/>).

4.4 Critics of supermarkets and the competition commission

The owners, managers and employees of production firms get easy put out of business when the successful supermarket chains gain stronger power. It is also harder for small independent grocers, greengrocers, wholesalers and increasingly other trades to survive the hard competition. Since the supermarkets sell the majority of fresh food the supermarkets have great power. Horticulturalists and farmers are normally the primary producers and several of them rather small (Seth 2001). Over the years the retailers have been accused for taking advantage of this unequal relationship. One example is that supermarkets cut the price for a period when they promote, and afterwards the price goes up again on the shelves but not for the producers. Another problem for suppliers is that there are no written contracts and they don't know if the supermarkets let them down to buy cheaper products from other producers (Corporate Watch 2003).

Frequently complaints on the large supermarket chains occur and while the retailers are maximising their short-term gains they could be harming the whole industry in the longer run. Scottish food producers can not compete internationally and already Britain imports a larger proportion of manufactured food than any nation in the world and if the trend continues it can only get worse. It is thought that supermarkets do not concern enough with health and profitability of the supply chain as a whole. The way it is now they are threatening to destroy it. When they are damaging horticulture in particular and to some degree agriculture the national effects are enormous. They are harming many small towns in the countryside and

their overall influences could be really worrying. The success of the supermarkets has led to a major shift in power but this does not have to be a problem. The problem is if the supermarkets abuse their power and this undoubtedly happens. With the great authority supermarkets have goes responsibility and they have to behave as industry leaders (Seth 2001).

To avoid the problem with the unbalanced power situation between supermarkets and their suppliers the government has published a code of practice for supermarkets, which sets out how business should be conducted. The code follows a Competition Commission report - Supermarkets A report on the supply of groceries from multiple stores in the United Kingdom and was published in October 2000. The report recommended the introduction of a code, but farmers and consumer groups have said it is too weak and imprecise.

The code applies only to those supermarkets with 8 % or more of the market – Asda, Safeway Sainsbury and Tesco. Under the complaints procedures, all breaches must first be raised with the supermarket. If that fails, the supplier can then take the case to an independent mediator but the Director General of Fair Trading (DTI) said it would be up to the supermarket and supplier to decide who would mediate. DTI will monitor the operation of the Code and investigate if the issue falls outside the mediation procedure. The Competition Commission clearly identified practices of sufficient concern that it thought it necessary to demand a Code of Practice to regulate them. "As it stands, this Code does not appear to meet those needs." (<http://news.bbc.co.uk/1/hi/business/1632045.stm> 2001)

4.5 Origin branding and supermarkets' own brand label

Consumers are more concerned about the origin of the food they buy as food choice moves further away from the producers. These are expected to provide a standardised commodity to meet the demands of the major buyers. However food scandals, such as diseases, toxics and gene modified products make the consumers anxious. This has resulted in an increasing demand for safe food with full traceability. A result from this can be that food produced in the near market area may benefit from these demands (Gummer 2001).

The supermarkets' own brand labels are achieving a greater market share and are expected to continue increasing. At the moment over 50 % of the major retailers' sales consists of such products, determined by supermarkets' own specifications. The supermarkets are competing with small delivers and have great power to decrease prices, which makes it hard for small producers to compete. It is also harder for the producer to market their products if the package is labelled with the name of the supermarket instead of the producer (Seth 2001).

4.6 Healthy labelling and local production

The trend of a healthier lifestyle is affecting the horticultural industry in a positive way. The supermarkets are giving fruit and vegetables more shelf space to encourage the population to eat more healthy food. This is good for achieving an expanding demand for fruit and vegetables. However even if some consumers are showing a greater interest in a healthy lifestyle the consumption of fruit, vegetables and cereals is still too low across all groups in the society. Only half of the households are achieving the recommended daily intake of fruit and vegetables (The Scottish Office 2002). It has been shown that Supermarkets are more

sensitive to the concept of healthy eating than the population during the last 10 years. Supermarkets have promoted healthier food to affect the consumers. There is an increased availability to consumer of a wide range of fruits and vegetables and this have been achieved through better organisation of production, improved sourcing and distribution along with greater shelf space. Another example is in-store provision of healthy eating leaflets and recipes. The suppliers have an essential role in providing products to consumers and because they have an enlarged interest in healthy eating the producers have adapted production to meet consumer's need and also a variety of marketing initiatives to meet the interest (The Scottish Office 2002).

There is an important group of fresh foods, consumed in Scotland, which is locally produced. Scottish fruit and vegetables have good quality that continues to improve. The growers also create new shopping environments for example farm shop and farm gate sale. The initiatives increase consumers' sense for health benefits and attractiveness of fruit and vegetables (The Scottish Office 2002). The supermarkets have shown an increased interest for more local food in the stores but currently the profile of local food is low. It would give large benefits for local economies to be able to keep the money from produce and consumption within their local area (CPRE 2004). Even though the globalisation is obvious there are trends towards local individuality. Some people are prepared to pay more for a quality product with a known brand or for something locally produced in a quality environment. In this respect there are many Scottish products such as Arran Foods and Baxter's which benefit from this. It gives an opportunity to add more value in the rural economy and enhance the quality in the final product (Gummer 2001).

4.7 Added value and organic production

If Britain continues to follow the American trend 60 % of the meals will be eaten out of home within a few years and this leads to further development of the prepared food sector. There could be plenty of opportunities in the UK if you can get the production right and also the produce need to have high quality. Independent retailers are forced out and for the once remaining the competition is fierce. Market share is gained and lost on prices and margins will be squeezed further when the multiples are competing on price. The only way to survive in the future seems to be by cutting costs even more. British loyalty research has shown that British customers are more concerned with the value of the produce than the country of origin (Grower, October 1999).

The expanded market for organic products is another alternative to niche the production and possibly gain a better position on the market. If the growers are given subsidies it makes it easier for them to increase the organic produce, but on the other hand this makes it harder to see where the market is leading. There for it could be better to use the subsidies to enhance the consumption of organic vegetables (Wasik 1996). Organic food is a large area of growth for supermarkets and they have increased the quantity of processed organic food. The question is if import of organic products from monocultures in the global south is accepted by the Organic movement's social and environmental aims. At the moment UK are importing 70 % of its organic products and most of it come from outside Europe (Gummer 2001).

4.8 Summary of Chapter 4

The cultivated area of horticultural crops has dropped a bit over the last years and there has been a development with decrease in the number of growers but an increase in the grown area due to larger farms specialising in fewer crops. The horticultural industry and market of Scotland is also more concentrated to the eastern and southern parts of the country than what it was before. The different market channels for producers to sell vegetables through are supermarkets, wholesale market, farm shop, vegetable box schemes and farmers' market. Organisation of the growers in producers organisations and grower groups can help them to gain increased power in relation to the supermarkets. Also organisations like the Horticultural Development Council shall be a source of research to help the growers to develop their business. At the moment almost 80 % of the produce is sold through supermarkets and the largest chains in Britain are Tesco, ASDA, Sainsbury's, Safeway, Co-op and Marks and Spencer.

The different routines in the relation between supermarkets and suppliers involve produce schemes with quality standards, which suppliers have to be accredited to and the produce has to pass. The consumers have become more concerned about the origin of the produce and also demand more produce with 'added value' because of the convenience. The marketing and branding of the produce include origin branding, supermarket's own brand label and the 'healthy labelling'.

5 Results from interviews in Scotland

The results from the study are based on material from several interviews with growers and other persons involved in the vegetable sector. More detailed information about these persons is available in Chapter 2.2. In Table 1 comes a short review of the respondents participating in the case study.

Table 1. Summary of persons interviewed in case study

| Interviews Scotland | Background |
|---------------------------------|--|
| Mark Sutton | advisor for SAC to vegetable growers |
| Joanna Blythman | food journalist and campaigner |
| Johnathan Sutton | category technical manager working for Tesco |
| 8 growers (A-H) | growing vegetables in eastern Scotland |
| 5 growers Farmer's Market (1-5) | growing vegetables in eastern Scotland |
| Interviews Sweden | Background |
| 5 growers (I-M) | growing vegetables in southern Sweden |

5.1 Crops grown and size of company

The growers cultivate different crops and can be more or less specialised in one or a wide variety of vegetables. Also the size of the different companies varies and can affect the structure and success of the company in combination with the choice of market channels. Here comes an overview of what the interviewed growers cultivate and the size of their companies in Acres, 1 Acre=4047 m₂ (Table 2). The growers are ranked in size order:

- Small (0-100)
- Medium (300-600)
- Large (1400-2000)
- Extra Large (2500 or more)

Table 2. The interviewed growers produce and size of company

| Grower | Crops | Size company |
|--------|--|--------------|
| A | Specialised root crop | Large |
| B | Wide variety | Extra Large |
| C | Brassicas | Medium |
| D | Broccoli, cauliflower | Small |
| E | Iceberg lettuce, Brussels sprouts | Small |
| F | Herbs, leaf salad | Small |
| G | Swedes, strawberries, raspberries, cereals | Extra Large |
| H | Specialised | Medium |

5.2 Strengths and weaknesses of different market channels

The growers have chosen different channels to sell their produce through and this has affected their profit and position on the market. For an overview see Table 3.

Three of the growers are selling their produce through a Private Limited Company to the *supermarkets* (C, D, E) and the others are selling their produce directly to the supermarkets. The majority of the growers are selling their produce to Tesco and Safeway. Some of the growers are dealing with Sainsbury's and Somerfield and a few are selling to ASDA and Marks & Spencer. Only one grower is dealing with the other supermarkets Co-op, Lidl, Aldi and Booth. More detailed information about the relation and connection between growers and the supermarkets can be found in the Chapters 5.5 and 6.3 to 6.7.

The *wholesale market* will try to sell anything but the price might not be good and besides they can only take a limited volume, according to the advisor Mark Sutton. Joanna Blythman's experience from her interviews with growers is that the grower has got more bargain money, when bargaining independently supplying a small shop or farmers' market rather than dealing with the supermarkets. The producers also feel more security and it is easier dealing with them as a smaller grower. If the grower gets rejections it is handled in an easier way and they don't have to fear getting delisted.

Farm shops, farmer's markets and box schemes: The advisor says that these market channels have the same sort of strengths and weaknesses. "The strengths are that the produce can be sold at a higher price. But the weakness is that it takes a lot of work and also that it is necessary with a variety of products (Sutton, M 2004)". One of the interviewed growers was selling through vegetable box schemes and considered himself to be in a slightly better position when supplying them than when supplying the supermarkets. "It's more profitable to sell to the vegetable box schemes and the quality requirements aren't as high either (D)". The box schemes are generally growing crops of their own, but they are more of a marketing organisation than a growing organisation. They tend to concentrate on salads and more predictable crops, but want to buy in the crops which require a larger area and the crops which are less predictable. When the grower can not guarantee to have the demanded supply for the vegetable box schemes they have to buy in the crop from somebody else. "It's probably

cheaper to pick up the phone and call somebody in London, but they're looking for locally grown produce rather than crops transported all over the country". These aspects about organic ethics are quite useful for this grower and he would like to increase the amount of produce sold through this channel.

One grower was selling to the *catering service* and he thought the strengths in selling through this channel are the direct contacts you have to the buyer since you deliver it to their door step: 'This makes it easier to speak to the customer and also mix out the crops in season". However the negative influence with dealing with many different customers is that it's more time consuming (F).

Some years ago one grower used to take orders from housewives and delivered direct to their customers by car, but this was not a success. "It was the first action for delivering vegetables or fruits to the door. After this Tesco started to use the same concept and in rural areas it has been successful (A)".

Table 3. The routes growers use when selling their produce

| Grower | Supermarkets | Other routes | Specialisation |
|---------------|---|---|-----------------------|
| A | Tesco, Safeway, Somerfield | Earlier orders over Internet – direct delivery | |
| B | Tesco, Marks & Spencer, Sainsbury, Safeway Morrison | 1 % processing or potentially into food service | |
| C | Through middle man to Tesco, Safeway Morrison, Sainsbury's, Co-op, Somerfield | processing | |
| D | Through Organic Farm foods to Tesco | vegetable box schemes | Organic |
| E | Through middle man to Tesco, Marks & Spencer, Sainsbury, Safeway Morrison | - | |
| F | Tesco, Safeway, ASDA | catering trade, discerning home cook | |
| G | ASDA, Lidl, Aldi, Safeway, Booth | 20 % wholesale market | |
| H | Safeway, Tesco and Somerfield | 0,5 % wholesale market | |

5.2.1 Farmer's market

Joanna Blythman is very fond of farmers' market and says the trend is booming with a waiting list for getting a stall on Edinburgh's farmers' market: "Consumers and growers like it and even though the growers were giving consumers the same price or lower than the supermarkets, the growers were getting a good income. This is possible because the supermarkets didn't take its cut in the middle and both growers and consumers attending farmer's market would like it to be weekly or twice a week instead of twice a month, because then growers could get a good income by just supplying farmers' market. The market channel suits growers that want to be mixed farmers with different varieties. These are more environmentally sustainable since there are more problems with pests in monoculture land, which demands more pesticides".

I made a visit to the farmers' market in Edinburgh and asked the stallholders about their view on farmer's markets and their relationship and experiences from negotiation with the

supermarkets. All growers selling their produce on Edinburgh’s farmers’ market were very positive to the event (see Table 4). The only complaints were that it was arranged too seldom or the problems for customers to find parking. Three of the growers had dealt with supermarkets before but did not think they paid enough for the produce. The grower that sells to the wholesale market prefers selling to farmers’ market. Two companies were selling their produce through box schemes as well. One of these thinks it is very good, but the other one prefers farmers’ market instead of box schemes.

Table 4. Experiences of selling vegetables on farmers’ market and of dealing with supermarkets

| Grower | Advantages Farmer’s Market | Disadvantages FM | Experience supermarkets |
|-----------|--|--|---|
| 1 | -excellent, especially for smaller growers | - | -supermarkets weren't prepared to pay a reasonable price for the produce |
| 2 | -only advantages with selling through farmer’s market -very good for making it possible for the farm to continue the production & survive | - | - |
| 3 | -customer's won't get as good quality or flavour anywhere else | -only farmer’s market once or twice a month | -weakness supermarkets is their pricing structure and they don't pay a fair price to the supplier |
| 4 organic | -grower gets to meet the customer face to face and the customer can see it's "home grown" | - | -didn't pay enough for the produce |
| 5 organic | -customers know the produce is fresh and locally grown | -too seldom -problem with finding parking for customers | - |

5.2.2 Barriers for sale of vegetables

A barrier to increasing the amount sold through *wholesale market* is that everyone uses the supermarkets in the end (Sutton, M 2004). One grower who used to supply wholesale markets agrees and says that “as supermarkets became more powerful the wholesale markets became less powerful and it wasn't really worthwhile” (B).

Farm shops, farmers’ markets and box schemes: The barrier here is also that most of the consumers use the supermarkets instead (Sutton, M 2004). The major packers are the supermarkets and it is hard to increase the locally sold produce, since this is a small market (D). Another grower says: “barriers to sell more of the produce to catering business are that the company’s locality doesn’t make it profitable to deliver to buyers too far away and it’s not possible for them to deliver to everyone (F)”. One grower has a small supply locally, but says: “there’s nowhere else to sell the crops rather than farmer’s market and catering, so the market left is the supermarkets. Some of the vegetables are sent to fruit markets in Glasgow every other day, for example if they’re oversized, but sometimes when there’s too much it’s better dumping the crop than selling it (C)”.

Blythman says that barriers to farmers’ market are that there aren't enough of them but it's a growing event and their growth over the last years has been phenomenal. “The next step is for

local councils to find that farmers’ market is really good and to find buildings that are nice for it and with reasonable access and parking around it”. It would be preferable to have a permanent indoor market, like they have on the continent, which could be something of a base. “Farmers’ market sprung up spontaneously and it's time to start planning on to the next stage”. Another grower says that “since the company has a large volume of product and only two crops we don’t feel suited for farmers’ market (A)”.

5.3 The competitive situation

The competition to Scottish vegetables is mainly coming from England because everything you produce in Scotland can be produced in England (Sutton, J & M , Blythman 2004). The climate is warmer in England and especially in the south, which gives an earlier season for England and a later season for Scottish crops (Sutton, J 2004). For carrots and potatoes the competition is mainly coming from Holland and the Dutch tomatoes wiped away the Scottish tomato market (Blythman 2004).

When the Scottish vegetables are in season the competition is mainly coming from southern and eastern England in Lincolnshire and Cornwall, the growers agree on. “There are various big companies, more specialised in one crop in England (B)” Two growers said the competition was not very big inside Scotland. “The competition is very seasonal and when Holland is strong England isn’t as strong, cause in the English season basically everyone's strong (H)”. “Technology with better refrigerated lorries also competes with local production and imports from Europe are becoming a greater threat (D)”.

There is an increasing competition from the *buyers*, consider the growers: “Availabilities are offered to the supermarkets and the price is run down (C)” and “supermarkets cut out instead of products (A)”. There were also worries about the increasing competition between the supermarkets such as Safeway being bought up by Morrison and ASDA by Wal-Mart.

5.3.1 Labour and strategic alliances

The labour of the companies is often members from the family combined with local or foreign labour. The larger suppliers which have been interviewed have *strategic alliances* abroad and supply supermarkets all year around. This means they buy in produce from other distant countries when it is out of season in the UK. Table 5 shows the connection between the companies and their suppliers such as labour and alliances.

Table 5. Labour and strategic alliances

| Grower | Labour | Strategic alliances |
|---------------|---|---|
| A | Family | Portugal, Tasmania, Canada, South Africa, Spain |
| B | Foreign students, migrate workers, local labour | Contracted growers in the UK, farm in Spain, several alliances abroad |
| C | Local labour | Spain Australia South America |
| D | Migrate workers | No |
| E | Family | No |
| F | Foreign students, local labour | Tenerife, Spain and Israel |
| G | Family | Yes |
| H | Migrate workers, local labour | England, Belgium, Spain, Turkey and Portugal |

The “seasonality” for certain vegetables does not exist to the same extent as some years ago and all year around supply is increasingly demanded from supermarkets and the consumers. The larger growers thereby supply the supermarkets also when their own grown crop is out of season. This is possible if they have strategic alliances and buy crops from companies in other countries and then sell it to the supermarkets. As a result the suppliers have stopped being growers and started being traders.

Joanna Blythman is negative to the loss of seasonality: “Since supermarkets want 365 days supply, with permanent global summertime, we need to have all agricultural commodities on planet on the shelf every day of the year and it's a boring thing”. The all year round seasonality is a direct consequence of supermarkets buying policy and this affects the industry for fruit and vegetables and it takes away value to deny the season. Some growers also think there are bad effects with having all year supply of vegetables (A, C): “The generation growing up now doesn't realise that there are different crops grown in different seasons. The supermarkets are changing the seasons because the consumer's demand to be pleased by the supermarkets and new technology”. According to the grower it's not a consumer demand but instead the supermarkets interest, since they put the products on the shelves and there for customer buy it. As an example the grower says: “I don't think there's a demand for sprouts on the shelves in early May (A)” and: “The problem is that too much is grown in the early season and it gives a lower price. It's easier to buy in produce and turn it over for a few weeks to sell it later. It also gives time to plant the crop and look out for the company, rather than struggling with costs and little money when growing your own crop. The grower thinks it would be better to have a few months without for example sprouts on the shelves and when it comes back the consumer would feel more tempted to buy it and you'll get an increased demand for a few weeks (C)”.

5.3.2 Threat of new entrants because of the EU enlargement

The general view of the EU enlargement is that in the longer perspective it would affect the industry, but at the moment you can not feel that much difference:

“The EU enlargement will affect the market for processed vegetables when selling to supermarkets but fresh produce will be in a safer position than for example processed vegetables (Sutton, M 2004)”. Joanna Blythman agreed:” The EU enlargement will create a lot of economies desperate to do business with big retailers. So the retailers will shop around Europe to get the lowest price, because people in eastern European countries are prepared to grow for less. They'll get staff or market initially and especially labour intensive crops will feel the effects on the enlarged market (Blythman 2004)”.

The technical manager for Tesco thought the situation should be ok for the next 5 - 10 years as the EU extension countries slightly become more stable. This is because not many of these countries are exporting produce into the western EU, so their economies are not as strong as the rest of EU. In the future it has to effect the competition situation within the UK. “At the moment labour is a big problem and a lot of the labour used in the UK is East European or has been East European in the past. Since workers from the extension countries have been coming over to the UK, they'll recognise the schemes”. Work force manual labour in the UK is very difficult to find so in five years if these countries keep their workers to manage their own operations in their countries the efficiencies will become stronger and stronger: “Tesco will back up supplies of the UK production, if we respect the cost (Sutton, J 2004)”.

The growers also thought it would take a few years before the EU enlargement affects them: “The extension countries don't have the right infrastructure yet to be able to compete with what's done in western Europe, but within 5 - 10 years they'll sort things out and will be able to grow good quality products and probably keep it for a number of years”. This will probably stabilize: “The extension countries populations will have aspirations to have a better standard of living so within 20 years it might not be that much cheaper, but it's bound to have an effect on the supply (B)”.

One grower said he thought there would be more problems and competition with potatoes and perishable crops than for example cauliflower: “The infrastructure in the enlargement countries isn't as efficient and the countries may go more into processing markets rather than the fresh (D)”. The EU enlargement will have big effect on labour intensive crops since eastern countries have cheap labour. However it is also important to offer high quality (H). One grower mentioned using the EU enlargement to their advantage: “Countries like Poland are young but they're learning new technologies now and their cost of labour is much cheaper than in Britain so the growing cost is less and some Scottish and English farmers are already out their and taking the ideas out along with using the advantage of lower costs”. When farming in Poland, the produce can easily go into refrigerated lorries and reach UK within a day. “It'll be tougher for UK farmers to grow and supply, but if for example a Private Limited Company as a middle man brings it in they can put it on the supermarket 's shelves”. They could in this way source material and take earlier and later part than the Scottish season (E).

5.4 Organisation of growers

About the organisation of the industry grower groups and producer groups were the operations mentioned. Mark Suttons' experience from grower organisations operation on the grower's behalf is that they are doing a poor job.

Joanna Blythman says: “Vegetable growers don't have money for marketing and aren't good in getting together in agricultural cooperatives, like for example in France. There's not the same tradition in UK and the supermarkets have just walked in there and bargaining collected it straight into the vegetable sector”. There is strong individualist thinking but there is a need for stronger cooperation. “One example is the Thames Valley Growers, which was a federation in the 50s, but in 1954 the supermarkets came on to destroy it by dividing it in a row and undermine all that. The growers were organised, but they could not stand up against the strength of the retailers”. Also the National Farmers Union, NFU, has a rather weak position.

Johnathan Sutton says: “There are a few grower groups and producer groups available in Scotland”. Some of the growers share machinery, but not too may vegetable growers cooperate like this. The reason can be that they are free in nature and tend to be individually thinking. Also a range with different varieties of crops makes it harder for the growers to cooperate.

Four growers are joining some sort of organisation and the growers seemed to be more positive to grower groups and negative to producer organisations (PO) in general. One grower were however rather positive to producer organisations (H). See Table 6.

Table 6. Description of the grower groups and producer organisations of the growers

| Grower | Organisation | Description |
|--------|--|--|
| A | Brassica Growers – grower group | Mostly concerns about agronomy and pesticide use. Not a problem since grower doesn't think swede is suited for marketing and there are only 5-6 major growers in Scotland |
| B | no | - |
| C | no | - |
| D | Soil Association, SOPA (Scottish Organic Producer Association) –PO | Organic certificate body |
| E | no | - |
| F | BHTA (British Horticultural Trade Association) – grower group | Meetings four times every year for discussions about their operation and different experiences. Separate organisation run individually and not a producer organisation but it's involved with the government. Since the individual herb growers were too small and needed to get together from the governments view BHTA was created |
| G | | - |
| H | Tandem – PO | Started 2 years ago and has 18 growers participating of which 3 grow leeks and the rest other Brassicas |

5.4.1 Strengths and weaknesses in the organisation of the industry

Grower groups can be advantageous to growers and suppliers (B, D, F) and also the relation to nearby farmers is an important instrument (D). “In the grower group’s discussions it’s amazing what comes out. Overall the organisation is reasonable successful and without it the grower company wouldn’t be where it is today (D)”. Another grower says: “*Producer organisation* is a good thing, because you can get grants and there are no other horticultural grants”. It is a good way of doing business for this company, but not for everybody: “The business has to reach a certain size to justify it and the turnover has to be at a reasonable level to have the advantages. In the producer organisations, no matter the size of the company, you have to pay almost the same amount of money to be a member (H)”.

Two growers thought that the diversity with different crops in the industry could make it hard for diverse growers to cooperate: “Since the producers of vegetables often grow different crops it is harder to join in organisations that promote the right products (A)”. “The problem is that the organisations can become very large with too many people trying to make the decisions and it can then be hard to remain focused (B)”. Two growers thought it could be hard to see where the market is going (D, H). One grower says he wishes there were more organisations to join but does not think that the large amount of EU money you get per acres for growing organic crops is positive: “18 months ago the Scottish Parliament wanted to convert 20 % of the conventional production to organic. However organic production has to be demand driven and if the market isn't prepared to pay the premium for organic products we could rather be without it. The EU money should be spent on encouraging consumption rather than production of organic crops (D)”. Two growers thought that because the produce was fresh and not processed it was harder to cooperate (F,H). “The view on producer organisations is that this type of collaboration doesn’t work well in production of fresh produce. The reason for this is that vegetable producers are too much individually minded and they can’t work together in this way. It’s difficult to find successful cooperatives in horticulture (F)”.

5.4.2 The Horticultural Development Council

The HDC is a government owned organisation which makes research in favour of the horticultural sector. See Chapter 4.1.3 for more information about the organisation. There have been some complaints on the work of HDC from growers and therefore it has been evaluated by an organisation named DEFRA. They have come to the conclusion that the HDC shall continue with their work. The majority of the respondents from this investigation, on the other hand, have answered that they think the HDC is using their levies in a rather inefficient way:

Mark Sutton thinks the HDC is using their levies in a good way and two growers thought HDC were doing a reasonable (B) or OK job (F). However four of the growers didn't appreciate their work and two growers thought they charged too much in relation to the research they do.

5.5 The relationship with supermarkets from a grower's perspective

Both the advisor and the technical manager consider the relation between vegetable producer and the supermarkets to be fair. "The strengths when selling produce to the supermarkets is that you can sell a large volume of the produce to them and they are also a source of reliable payment (Sutton, M 2004)". The technical manager says: "The relationship between supermarkets and the growers is getting stronger especially if the grower can get a good relation with the buyer or technical managers".

Five of the growers considered their relationship to supermarkets to be rather good. Of these growers three of them thought the relation was very good (B, F, G) and the two others thought it was good or were reasonable happy. The three remaining growers were not as satisfied with the situation as the others. They thought it was hard to have a good relationship to the supermarkets (C) and to deal with them (D, E). One of the growers thought the relation was fairly good when they were supplying supermarkets directly, because the people they were dealing with then were better (C). Another grower however thought it was better to deal through a middle man who deals with 4 or 5 supermarkets: "If we lose an order with one supermarket they still have the other supermarkets to rely on (E)". It's interesting to note that the smaller growers that are supplying supermarkets through middle man aren't as satisfied with the relation as larger companies (C, D, E).

5.5.1 Strengths in the relationship between growers and supermarkets

The strength with supermarkets is that they demand quality (B). "Even though supermarkets shout and snap their fingers they are profitable and often straight forward". Since 80 % of the groceries in UK are sold through supermarkets, you have to deal with supermarkets if you want to sell groceries. "This makes it necessary to get on with the supermarkets and the multiples seem to know it. Evidence for this is that other growers, which don't supply supermarkets, will pay for the business to sell to supermarket (F)". Other strengths are "constant business, dependable market and high volumes (G)". "It's good that supermarkets have got faith in their suppliers (H)".

5.5.2 Weaknesses in the relationship between growers and supermarkets

The weakness in the cooperation is “the time consuming paperwork the grower has to do and their stringent requirements since there are too many different standards. Another weakness is that they need the volume in return or otherwise there’s a risk they won’t buy the amount of produce the supplier has grown”. If an agreement between the grower and the supermarket is broken Mr Sutton considers the supplier to take the biggest risk and lose most (Sutton, M 2004).

The food journalist Joanna Blythman describes the relationship between supermarkets and their suppliers as: “one-sided, largely feudal and very unfavourable to the grower”. “Since supermarkets have the retailing strengths, they also got the power. If grower wants the supermarkets business, it's because it's a big chance for their business and there's lots of money involved”. The problem is that it's also a big risk if the grower only has one customer and no security, because there are no contracts: “Basically the supermarkets tell the grower that they’ll take everything the grower supplies them with, but if it doesn't fit the supermarkets, they won't take it and then they can stop it over one night”. However the grower doesn't speak to often about the problem with supplying supermarkets, because some growers do quite well out of it, but many growers are just getting market business and are able to retain it, but have strong price pressure. “The producers are squeezed roofless by the supermarkets and often they find themselves selling under the cost of production, just to get the business, which clearly won't work in long term manufacture. There for they have to look up where they can save money and often that's on labour. The alternative is to pay fewer workers less money and take in eastern migrate workers, often without proper work permits. The growers cut corners by making them work hard for low wages”. Bigger growers' business with supermarkets gets more intense, since they have a bigger turnover and larger production, which is preferred by the supermarkets. “Bigger growers are dedicated to be supplier for supermarkets and do what they're told. However there's no rotation between different crops, since the land is only farmed for one thing. Obviously this makes supermarkets tending to encourage monocultures in horticulture, since this is the way they like to do business (Blythman 2004)”.

Johnathan Sutton says: “The weakness for the grower is that they don't have any direct contact with the supermarkets. Generally the grower's get less power and the UK production is maximised, while the supermarkets are getting stronger. The supermarkets need to be competitive in all aspects and can't just reduce the cost to the grower if they want to maximise the supermarkets competitiveness”.

Three growers mentioned the problem with low prices for the produce. “Supermarkets want low price in their shop every day and they want to retain their margins. The impression overall is that over the last few years supermarkets actually got worse to deal with and are more powerful (B)”. Another grower says: “They never increase the price we are paid for our produce and are constantly squeezing us (G)”. “Basically supermarkets tell the grower to supply them over 12 months for a certain profit margin and it doesn't matter how they achieve it (H)”. The supplier doesn’t speak as much to the supermarkets and they almost only contact you when you're in trouble. The supermarkets don't want the grower to manage their business or technology. Instead you're managing your category (H). Some growers mentioned the event with the big Supermarkets in UK forcing the suppliers to pay to do business with them. One grower says: “It is obviously common in the market for fresh produce that the suppliers are forced to pay for the pleasure of doing the business. But there are also other arrangements

where some retailers franchise the produce and the philosophy of the providers are considered to come from this (A)”.

Four growers were dissatisfied with the supermarket buyers and thought they were changed around too much (B, E, F, H). Their view is that they would like to have more competent buyers, which care about the product and not only the low price. They would also like them to stay longer in the same category. “The old-fashioned buyer that suppliers were dealing with before was someone who knew you and this gave opportunities to negotiate if mistake occurred. The way it is now it shall not get to cosy. Another reason for changing the buyer is that supermarkets consider the buyer to need another challenge (F)”. Another comment was: “It would be better to get more competent buyers. Supermarkets should find buyers with horticultural background instead, but they prefer hardnosed accountants (H)”.

The small or medium-sized suppliers, which weren’t specialised in few crops, were less satisfied with their situation when dealing with supermarkets than the larger or specialised suppliers. One grower says: “I wouldn't like to be selling directly to the supermarkets as some growers do and the supermarkets aren't prepared to deal with small growers”. Fewer suppliers are supplying the supermarkets, since supermarkets want to buy from one supplier, who will supply all their vegetables. One grower would like to supply locally grown organic vegetables to the supermarkets nearby but they're not interested. “To work with the supermarkets you have to be very big and there's no way around this middle man. The primary producer has no strengths in this relation (D)”. “If something doesn't please the supermarkets they can just cancel the order and get the product from somewhere else. Some growers only deal with one supermarket and that's the way supermarkets would like you to deal with them. However it’s also hazardous so dealing with many supermarkets gives a spread risk (E)”.

Table 7. The relationship with supermarkets from grower’s perspective

| Grower | Relationship | Strengths supermarkets | Weaknesses supermarkets |
|---------------|-----------------------------|---|--|
| A | good | | -lack of understanding -forces suppliers bidding for the business -no contracts but they don’t like to be let down |
| B | very good | -demand quality | -squeeze suppliers & demand the price they want -very powerful & competitive -have a lot of supply to choose from |
| C | hard to deal with | | -they don’t pay enough for the produce |
| D | hard to deal with | | -primary producer is in weak position -hard to deal with for small producers -don’t take advantage of local supply |
| E | very difficult to deal with | -dealing with many supermarkets gives spread risk | -sometimes don't use their common sense -don't have much customer loyalty -suppliers are being always anxious -like you to deal with only one supermarket |
| F | very good | -profitable sell large volume -straight forward | -buyers in fresh produce don’t last long enough -grower taking bigger risk than supermarket |
| G | very good | -constant business -high volumes -dependable market | -no control on price |
| H | reasonable happy | -supermarket has got faith in supplier | -turnover in buying staff & less personal relation -only care about profit margin |

5.5.3 How the relation can improve

Joanna Blythman thinks supermarkets should be forced by law to give their suppliers legally binding contracts and have another respect of the grower's business. Supermarkets should also be enforced to have business information of notice during closer periods: "Informally at the moment supermarkets can just pick up the phone and stop the growers they don't like, without any reason and that's unacceptable". To have contracts would help the growers and there used to be a legally regulatory code of practice for supermarkets, which allows anonymity to redirect the power balance: "There isn't a code of practice at the moment since it's just regarded to be a joke and hasn't worked. Supermarkets have ignored it and growers don't feel any protections of it". The government and the competition commission have a very narrow light regulatory, but it's important that the regulatory gets stronger and the supermarkets needs to take more responsibility, says Ms Blythman.

Another problem in Scotland is obesity and there needs to be less crisps and unhealthy products in the stores with more fresh vegetables and fruits: "The problem is that vegetables are expensive and not very fresh besides they are over packaged. When chopped up carrots are much more expensive than crisps, the majority of people don't buy it". Since supermarkets appear to have effects on the consumers, they should market the produce differently to benefit healthy alternatives such as vegetables and fruits. "Promotions of low price products tend to make people buy the products (Blythman 2004)".

The technical manager of one of the supermarkets does not think there is anything he would like to change in the relation between growers and supermarkets: "The growers are welcome to see them if they want to but the timing for this can be good or bad depending on the period". Vegetable producers could work closer together in grower groups and talk to each other, but they would like to sell their own product (Sutton, J 2004).

Two growers mentioned the problem with the market situation due to the oversupply in Europe: "The high supply is always or usually in excess of the demand, which gives the supermarket advantages. Needed changes in the supply situation would be to get the supply more in line with what the demand is and that's not easy (B)". The other grower says: "There's only one thing that creates real money and that's true shortage. As soon as the growers are willing to plough down the overproduction and the supermarkets get their supplies there's nothing that can force them too put the price up. Instead they get customers in their shops to see if they can sell more". He also mentioned cheaper import products: "The bad thing is that when you can sell Australian or South African vegetables you're helping to drop the price further. Then its better saying there is no Scottish, but only South African crops". In the end: "Supermarkets drop the price and when it's ridiculous low the consumers may even start to think there's something wrong with the produce (A)".

50 % of the growers mentioned their low profit margin and that they'd like to see fairer prices for the produce. "The prime producer's struggling in so many ways. As soon as there are too many mouths to feed in the way through to the customer there's nothing left for the poor producer (C)". Other growers mentioned: "Better rewards for a high quality product (G)" and "more bargaining power for more money (H)".

One grower was interested in seeing more promotion of locally grown crops from the supermarkets side. When supplying Tesco with conventional potatoes the crop is sent to Livingston where their deposit for the whole of Scotland is located and then come back to the

supermarkets 4 miles from this farm. This means the potatoes have gone 4-5 times the distance to get here the time they get back again. It would be better to avoid the unnecessary transports of vegetables over the country (D). Two of the growers have experience from organic production but one of them has stopped because he could not sell the crops cheap enough (A). The other grower is not content of his profit margin either when selling to the supermarkets (D). About the supermarket buyers it would be preferable from the grower's perspective to have more competent persons to deal with.

All growers agreed on them taking the biggest risk and loosing most if an agreement between the grower and the supermarket was broken. Four growers mentioned the lack of contracts and instead having only verbal agreements, which could be a risk for the grower. One grower tells about an incident when one supermarket wanted the amount of produce that the supplier could not supply them with. After this occasion the supermarket said that they would not buy the crop from the grower again. However after Christmas the supermarket came back and wanted their produce again: "There are no contracts but it could still work out (A)". Another grower would rather than verbal agreements about the supply have something in written: "It feels insecure with verbal agreements when thousands or millions of pounds rely on supplying supermarkets. But you could argue that a piece of paper won't work because if they don't want the product they won't take it (E)".

5.5.4 Different supermarkets' behaviour

The advisor's experience is that that Tesco is generally good in dealing with their suppliers (Sutton, M 2004). Joanna Blythman's occurrence from the different retailers is that no supermarkets really come out well: "Some growers prefer one chain and some prefer another". Collectively she has heard lots of stories told about all of the chains and she doesn't think there's much to choose between them. "The only difference is they have spread market share, for example Co-op has a smaller level of business, whilst Tesco and ASDA are so purple that the growers has to go along with it". ASDA has created a low price war, with a climate of price cutting, with which "all the other chains have had to jump". The price has been very much declined, but it doesn't mean margin cutting. Instead the growers have had to cut their prices, which leads to cutting in corners and adapt casual and black market labour.

Five of the interviewed growers think there is a big difference between how the supermarkets operate. "There are different experiences between different supermarkets even within the same chain, because you talk to different buyers and it all comes down to personalities and relationships. Even within the same supermarkets you could have much better experiences with one buyer than the other (B)". There are different philosophies between different supermarkets. "Over the last 3-5 years supermarkets have become more powerful quicker (B)".

Two of the smaller growers don't deal directly with supermarkets, but through middle man. Therefore they don't know if there is any difference (D, E). One grower said he'd prefer selling to only one supermarket because it is easier than involving other supermarkets as well. It also saves time when packing all the crops into the same type of packages (D). One of the growers does not consider there being a big difference between how the negotiation with different supermarkets is working. "The supermarkets are slightly after the same thing in the end of the week, but they work in different lines (F)". Another grower says: "They all have their moments and are going down the same line in another 3 years (H)"

Table 8. The difference between different supermarkets

| Supermarket | Positive | Negative |
|-----------------|---|---|
| Tesco | A-usually works ok -pay well and quickly -honour bound to take product -loyal to their suppliers F-straighter forward -fast in their decisions | B-getting tougher C-doesn't want technical managers or buyers to have good relationship with supplier -most important buyer meets target and beat each other - would like to see where everything is coming from -change buyers every couple of yrs -fined if wrong labels put on boxes H-only wants to know about margin or chemicals not interested in product -must match ASDA in price, can't be more than 6 % difference in their margins |
| Asda | F-faster in their decisions than for example Safeway | B-doesn't supply ASDA anymore after taken over by Wal-Mart and then they were looking for sole supplier |
| Sainsbury's | C-nice and much easier to deal with than Tesco for example -seldom visit supplier | - |
| Safeway | H-very good technical manager -take more time to communicate with their suppliers -good and big company -supplier got more business when Safeway was bought up | A- since bought up by Morrison they are the worst - sent fax a late Friday evening where they asked suppliers to pay £ 15 000 / line B-cheap and cheerful -always wants low prices -competitors want to meet them on price – price war C-often takes longer time when dealing with them. |
| Co-op | - | A-not loyal to supplier -have to bid for business |
| Marks & Spencer | B-higher prices for higher quality | B-not loyal |

5.6 Produce schemes

About the schemes supermarkets set for the produce the advisor thinks there are too many different standards (Sutton, M 2004). Joanna Blythman says: “What the standards do largely is creating paper trail, which means that if anything goes wrong in the supply chain, the supermarkets can find it and blame the supplier”. Supermarkets don't give suppliers any choice about it and don't even offer to pay the partnership. The suppliers have to join in and it is a way of keeping responsibility, which is hard for the retailers. The system makes it even harder for suppliers to make any money. Besides the standards are not really picking up things like quality. Nature's choice is mostly about pest management and the growers are still allowed to use lots of chemicals that are highly toxic and highly controversial. The public get the feeling that supermarkets are actually doing something about environmental problems. However they are not taking any effort and the suppliers pay for it whilst many chemicals are still allowed. However there might be a slight improvement with the worst chemicals. Nature's choice has been incredibly positive, according to Johnathan Sutton: “It's a standard that has been written with growers in mind so hopefully they'll like our paperwork”.

5.6.1 Positive aspects of produce schemes

Five growers thought the standards were a *positive* thing. Four of these thought the standards were good or even very good. The other two thought some standards were needed or OK. To get more detailed information see Table 9. Some comments were: “The schemes help growers producing good quality and safe food. The service comes with the relation and doesn’t take that much time (A)” or “The schemes have increased the overall standard and everybody is working to do good agricultural practice (B)”. “A good and important part of the schemes is that it’s looking after the use of pesticides (C)” and “It’s important to avoid too high pesticide residues since this is leading to headlines in the press (F)”. “The schemes helps making sure the suppliers get the right things for their customers (C)” and “the schemes are taking care of the demand (H)”.

5.6.2 Negative aspects of produce schemes

There are two growers which were rather negative against the schemes. One thinks it was a good thing when it came 7 years ago but now it’s over the limit. Three growers think the standards are too high. “When it goes on the supermarkets want to be better than their competitor and the level is rising for tighter standards but it doesn't give any effect (D)”. Three growers were annoyed about the fact that they have to pay supermarket’s third party auditors to get the licence. The auditors raise the standards since they want to make more money (A, B, C). There are also complaints about the time consuming paperwork following the schemes. Another fact complicating the work with the schemes is that different supermarkets follow different standards (B).

Besides one grower questions if Less Developed Countries are following the standards as hard (C). And another grower means that bigger companies can easier get away with not following the rules: “In the end supermarkets don’t care what you do as long as there are no complaints from their customers (D)”. There are also differences in the standards for organic production in different countries: “Scandinavia has tight standards, while Spain, Holland and southern England have more loose standards as well as southern Europe (D)”.

Table 9. Positive and negative influences from supermarket's schemes

| Grower | General view | Positive | Negative |
|---------------|--|--|--|
| A | -good | -suppliers are still in business -offering good quality and safe food - service comes with relation and does not take that much time | -to get the licences the supplier have to pay |
| B | -7 years ago when schemes came some things that some growers did was needed to be taken up | -schemes have increased the overall standard -everybody is working to do good agricultural practice | -UK farmers have probably done themselves a disservice -the power of supermarkets makes them demand too much -leading to far too much paper work -costs money to keep up with -supermarkets put it out to third party auditors, which want to make more money -some rules go way beyond what the law requires and that is wrong -different supermarkets are supporting different schemes |
| C | -standards are all great and good | -makes sure suppliers got right things for their customers -looking after the use of pesticides | -hard to believe that imported produce from developing countries are meeting all these demands -suppliers have to pay for people from supermarkets coming over to check standards |
| D | -there's a need for the standards | - | -competes with organic crops many consumers wrongly think there is no pesticides involved in production -level rising for tighter standards but it does not give any effect -supermarkets don't care what you do as long as there is no complaint from their customers -bigger producers easier get away with breaking the schemes -questionable how to measure results |
| E | - standards unnecessarily high | - | - |
| F | -standards covering growing side packing and visual state are OK | -important to avoid too high pesticide residues | - far too high -supermarkets competing with each other to have the highest standards -techniques for the pack house, fire regulation and temperature checking are put to high -time consuming paperwork |
| G | - very good standards | - | - |
| H | -standards are good and got to be where they are today | -take care of demand | - |

5.7 Marketing, origin branding and labelling of the produce

If the product is branded with a Scottish identity Mr Sutton thinks this affects the consumer pro farmer both within and outside Scotland. The current marketing for Scottish vegetables is considered to be very good and done efficiently by the growers (Sutton, M 2004).

Ms Blythman believes the consumers would love to buy Scottish and local produce, but she does not think the supermarkets are too serious in selling it. Instead it is the image of a cute local commodity product, which creates the illusion that supermarkets still buy from main business, the product will then continue as 365 days generics. “Scottish” has a quite good image outside Scotland as well basically because it is a quite natural unpolluted environment. However the brand is stronger on summer fruits and berries than on vegetables. There is much good will towards Scottish produce from the tourism image with a beautiful picture of the landscape (Blythman 2004).

“Different methods for marketing vegetables are healthy living and the 5-a-day message and Tesco has just linked in with the British Diverge Association to see if they can have index for produce of apples and other food”. Tesco sell an enormous amount of fruit and vegetables day in and day out, so people do like fresh food and it is hard to know how much further they can push the benefits without going over the top (Sutton, J 2004).

All growers except for one (A) had their produce labelled with “Scottish” always or at least sometimes. The produce was branded with Scottish labels or flyers and this is considered to be positive inside Scotland and in England or at least northern England. Some growers were not sure about whether the consumers in England liked Scottish produce or not. One of the growers did not think it made any difference or only to a small degree in Scotland since people are not interested in the country of origin. He said: “Focus groups have shown that freshness and nice packaging is most important (H)”. There is a discussion about whether to label the produce with Scottish in southern England or not and one grower thinks this may have positive influences because of the “anti Blair” feelings circulating (F). An interesting thing is that Scottish produce has a much better image in England than what English produce has in Scotland. For example Scottish swedes or carrots would sell well because it got a nice ring, but a cabbage from England would not be the same, so it is fortunate to be Scottish (E).

At the moment there is an IB number in the corner, which is the only way to know which packer the crop comes from. However three growers mentioned local branding as something positive they would like to see more of in supermarkets (C, D, F). Two growers mentioned an event a few years ago when local supermarkets were putting up a picture of the area where the nearby farm was situated showing the fields in an attractive way (F) or photos of the grower (C). This is a nice and clever way to market the local Scottish produce (F). “There's a need for more customers outside the supermarkets to make the suppliers being stronger (D)”. Some producers put their name on the package and one grower thinks it would give advantages for him as well to promote his name: “If I get trouble I make my own trouble with it (C)”. One grower put a lot of money in marketing but this is nothing you can see in the supermarkets. They also have their own brand label when selling to ASDA (F).

The reason that consumers prefer Scottish produce is the image of a clean and unpolluted environment (Sutton, M 2004). The consumers in Scotland relate to the product and think it is fresh and has high quality (B). It is a good marketing tool since Scottish produce is generally well regarded (E, D). “The reason for Scottish consumers to prefer Scottish produce is the

nationality feeling and more advertising for Scottish produce should be done (F)”. “Overall Scottish produce has got a good image outside the UK, but there’s hardly any export, because of the economics and short season (C)”. “Also the beautiful landscape with mountains, heather, wildlife and healthy image of Scotland helps giving the country a nice image (H)”.

5.7.1 Supermarkets’ own brand label

About supermarkets’ own brand labels Joanna Blythman is rather negative and says: “Supermarkets would like to have even more own brand label products. Then they don't need to make any commitments to the supplier”. The supermarkets selling own brand label products say that there is quality guaranteed and they would like to put it above other labels. On the continent on the other hand people like and respect brands and would like to have many in one category. It is far more interesting to have different brands available but supermarkets could easier control their suppliers, raise the price and get rid off the competition from other brands when having their own brand. Through value-engineering supermarkets make their own brand label products cheaper to get market and get rid of the opposition and this will happen in Britain if own brand label are continuous unchallenged. The biggest brands have to bend beneath for British retailers, since they have shifted the power balance (Blythman 2004).

Johnathan Sutton does not think that supermarket’s own brand label affects the marketing situation for the suppliers: ”The supermarkets’ own brand labels have been able to get so strong because there are no strong produce brands in the UK”. There are two or three within horticultural products and one example is Del Monte, which is a strong world wide brand particularly on pineapples in Tesco stores. There is also Floret’s, which is a strong European brand on salad and prepared and Salico, which do a lot of fresh potatoes. So Tesco do have a few brands but in the produce it is easier for everybody to manage out to a Tesco brand. The Tesco brand is well recognised and respected by the consumers. Tesco have faith and strength in their own brand and they would not be able to sell branding products as competitive as they can sell their own brand, because it is a limited amount that they can sell.

No grower seemed to be negative against supermarkets’ own brand labels. “Since the consumer finally buys the product, they are the supermarkets’ customers and supermarkets have to promote it the consumers. So as long as the grower is focused in supplying supermarkets, they'll probably not get their own brand (B)”.

5.7.2 Strengths and weaknesses in adding value to the produce

Five of the interviewed growers added value to the crop by more advanced packing, washing slicing or chopping of the crops. See Table 10 for more details. The experiences from producers adding value to the produce is that prepared vegetables which are diced and sliced is more profitable (Sutton, M 2004). The strengths with adding value to the produce is that the trend with prepared crops has increasing public demand. One weakness is that the quality control is much stricter (Sutton, M 2004).

Joanna Blythman is very negative against adding value to the produce: “To be able to add value to the crop such as prepared carrot sticks, the supplier will have to invest money in quite expensive machinery and equipment for the pack house along with health, safety and hygiene

inspections”. The growers have to pay for all this without any guarantee for future business and it is a tremendous risk. “It's like asking a carpenter to get everything to build a master cruise boat to go around the world, with no guarantee for more than one boat to build. It's crazy! Retailers try to off-load what shall be their costs and they are constantly trying to do that to make more profit margins”. By delegating what should be the supermarkets costs onto the supply base it makes the burden on the supplier increase. Ms Blythman has interviewed one supplier of turnips, who had invested in a 'shrink not wraps' machine for £ 5000 and then she was put out of the market. “If the grower makes investments in equipment and different packaging material, anything elementary, this will be the grower’s expense. The problem is that they don’t have any commitments from the supermarkets about long-term partnerships, so it is a very precarious, highly insecure business for the grower”. “The consumers behave like robots, picking up the same things and the only thing we change is to pick up promotions, which is often something value-added prepared. This is because when there's added more value to it; the supermarkets can make more profits out of the product (Blythman 2004)”.

One grower says: “If the company should start adding value to the crop they need to resynchronize the whole job, because it's a huge difference between what we're doing at the moment and actually having prepared food. The difficulties are with that it's a far greater hygiene class and it's nothing the company can do at the moment”. The supplier is talking about adding value to green cabbage: “It’s plain and ordinary and has been around for many years and we can put it in a bag. Then again it’s probably even more efficient to dice or chop the cabbage and green cabbage to then put it in a bag bit like mixed iceberg”. So far the grower does not add any value to the produce, but eventually they will start to chop up the cabbage. If they were direct suppliers to supermarkets they would talk to them about it, but now it is handled through a middle man. Before the grower has tried to add value to the produce and increase the sales with different packages and labels. They would like to have sealed bags for the crop but then they need a machine, which is rather expensive (C).

Table 10. Marketing, labelling and added value of vegetables (OBL=own brand label)

| Grower | Marketing | Labelling | Added value |
|---------------|--|--|--|
| A | - no marketing except for drop price - product is not suited for marketing | - supermarkets OBL - sometimes origin | -dice and slice |
| B | -no | - supermarkets OBL -used to have own brand when supplied wholesaler | -wash, grade & pack -peel slice dice process -different mix prep. veg. |
| C | -no | - supermarkets OBL -Scottish flag on package -before a code for packer but not anymore | -no - will start to chop up the cabbage |
| D | -no -more a word of mouth about what you produce | -thinking of putting brand label on package sold through veg box schemes | -organic grower |
| E | -no | - supermarkets OBL | - field packaging |
| F | -not enough is done -would wish for more origin stickers | -Tesco origin label -growers own label for ASDA | -cut and pack own grown crops |
| G | | | -grow, pack and haul |
| H | - no marketing except for drop price or giving away the product -Sainsbury's tried marketing with adverts for veg, has not worked | - supermarkets OBL -origin label -talk about getting back the regional label in UK | -placement of many crops together in packages |

5.8 Summary of Chapter 5

The results from the case study in Scotland shows that the size of the company combined with if the grower has a wide variety of crops or is specialised affects their choice of market channel. For larger producers it is preferable to sell to supermarkets. If the quality of the produce is not as high or the company is medium sized the wholesale market can be an alternative or a middle man to supply supermarkets. However smaller growers which grow a wide variety of crops could sell on farmers' markets or farm shop. Vegetable box schemes could also be an opportunity for small producers where they don't need a wide variety.

The competition is mainly coming from English growers or the increasing demands from supermarkets. In the longer perspective the EU enlargement will also increase the competition. The growers were generally positive to grower groups, but sceptical to producer's organisations. The view on the HDC was rather negative, but still there seemed to be a need for horticulture research. Branding the produce with a Scottish identity was thought to be positive, especially within Scotland. Supermarket's own brand label did not seem to worry the growers too much from a competition perspective.

Many changes in the relation between growers and the supermarkets could be done to get a more balanced situation. One proposal was legally binding contracts to lower the risk for growers dealing with the supermarkets. Other examples were better prices for the produce and more competent supermarket buyers. Different growers preferred dealing with different supermarkets but in the end the differences between them did not seem to be very big. Adding value to the produce is positive if it is a larger farm but otherwise the investment is too expensive. About the produce schemes the growers were rather positive to some rules but thought the limits could be too high leading to time consuming paperwork.

6 Results and comparison with the industry in Skåne

The total area for cultivation of crops in Sweden has hardly changed since 1984 even though there has been some alteration over the years. The number of companies growing field vegetables has continually decreased since 1984. In the year of 2002 the total area was 12 100 ha, almost the same as in 1999, whilst the number of companies was 2 040 a decrease with 13 %. The cultivated area of vegetables was 60 % of the total area of horticultural crops. In Skåne the areas of open ground has increased from 5 785 ha in 1999 to 6 100 ha in 2002. However the number of holdings has decreased from 810 to 727. Amongst the grown vegetables there was a domination of carrots, iceberg lettuce and onion, which together had almost 50 % of the total area in Sweden and 57 % in Skåne See figure 5 for detailed information (The Department of Agriculture 2003).

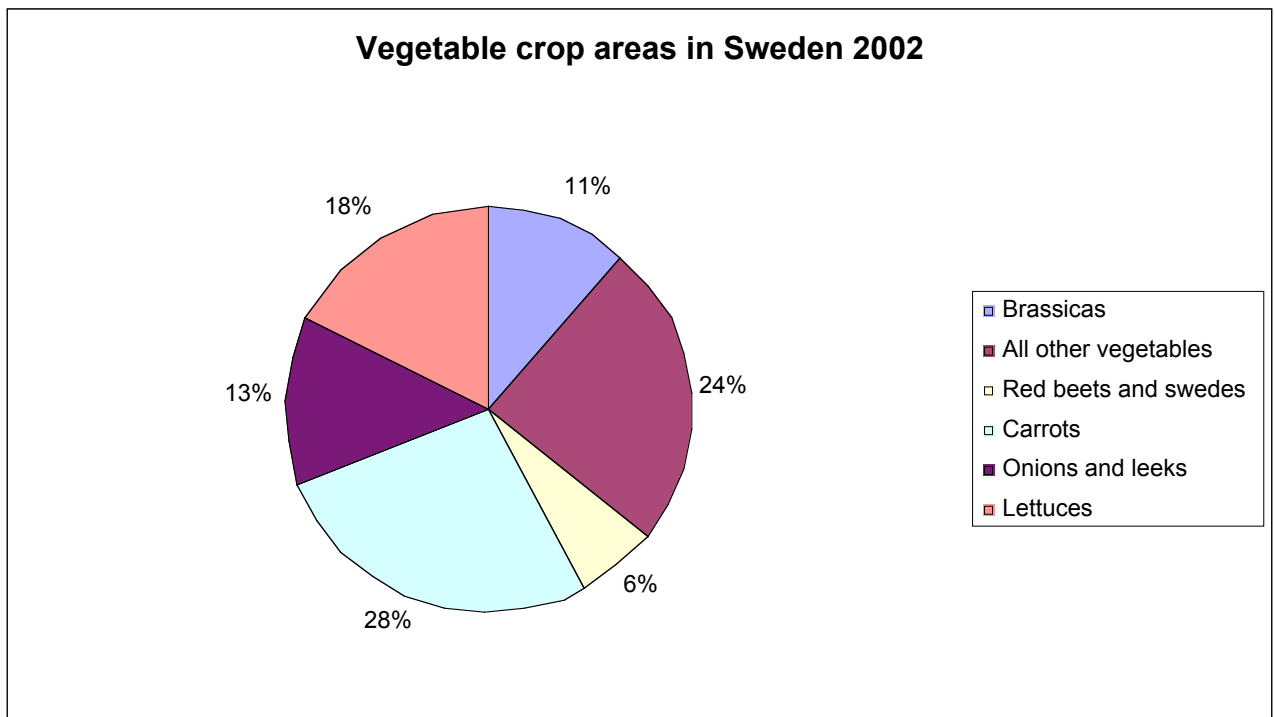


Figure 5. The area of cultivated vegetables in Sweden distributed on different crops in 2002
 Source: The 2003 Horticultural Census, concerning 2002

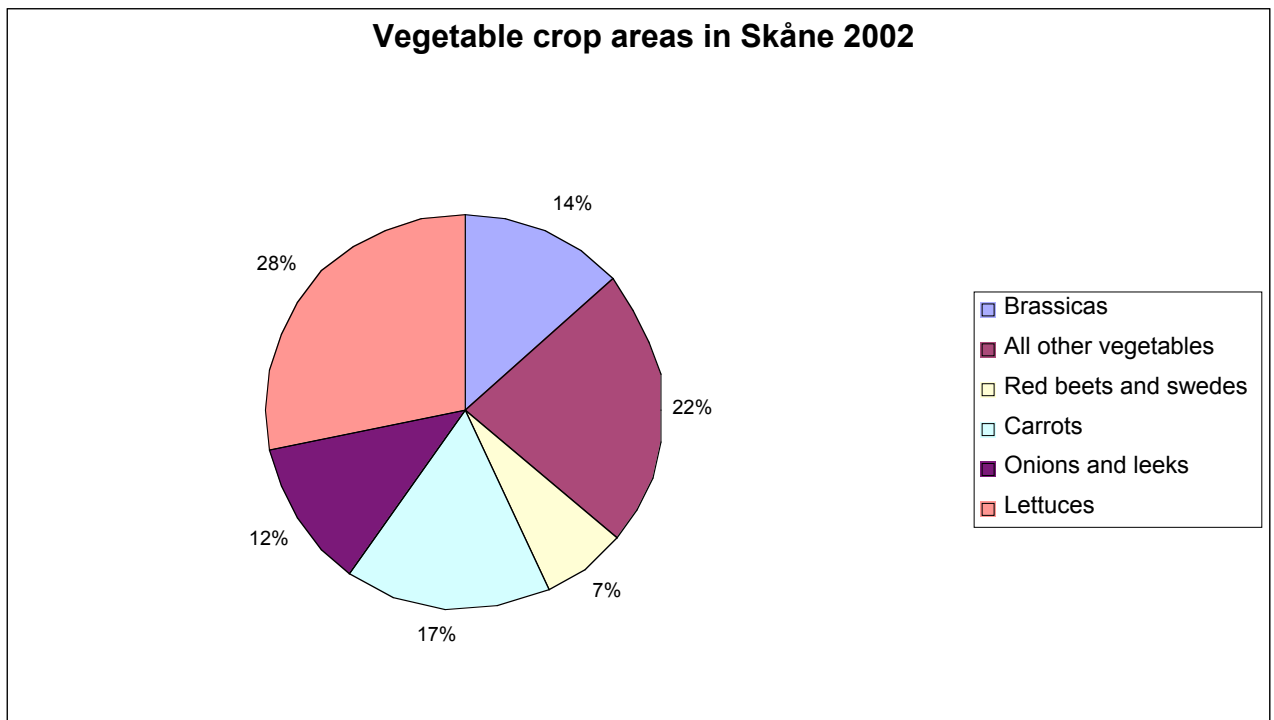


Figure 6. The area of cultivated vegetables in Skåne distributed on different crops in 2002
 Source: The 2003 Horticultural Census, concerning 2002 carrots, iceberg lettuce and onion

In the Swedish horticultural market it is still more common for growers to sell the produce through wholesalers than directly to the supermarkets. The Swedish supermarkets are dominated by a few chains. ICA's market share is over 37 % and in second place comes the Cooperation and Axfood with 18 % of the market each. Bergendahls from Skåne has a share

of 2,6 % which has recently increased. The new low price actors such German Lidl and Danish Netto (to 50 % owned by ICA) do not have any percent of the total market yet (Ekelund 2004).

6.1 Crops grown and size of company

The respondents in Sweden are situated in Skåne, the southern region of the country. The growers are generally farming over a smaller area than the respondents from Scotland and the varieties of crops are differing a bit as well. In Table 11 follows an overview of what the interviewed growers cultivate and the size of their companies.

Table 11. The interviewed growers produce and size of company (1 Ha=2,5 Acres)

| Grower | Crops | Size company (Acres) |
|--------|------------------------------------|----------------------|
| I | Specialised root crop | 250 |
| J | Wide variety root crops etc. | 150 |
| K | Specialised salads | 300 |
| L | Specialised root crop | 250 |
| M | Wide variety root crops, Brassicas | 300 |

6.2 Market channels and barriers for sale of vegetables

The different growers' choices of market channels are rather similar and all respondents except for one sell their produce through the wholesale market. Other alternatives are selling the produce directly to the consumers through farmer's market or farm shop. One of the growers sells its produce directly to the largest supermarket chain ICA. However the produce sold to wholesalers from the other growers is often sold on through to the supermarkets and then the grower has a relation to supermarkets but with a middle man. Many growers have hardly any direct contact with the supermarkets, but since they are the end customers the growers may still have some thoughts on how the relation is working.

Table 12. The routes growers use when selling their produce

| Grower | Wholesaler | Supermarkets | Other routes | Specialisation |
|--------|--|--------------|--------------------|----------------|
| I | Lime (70-80 %), SABA, KA Lundblad, Fruktservice RCD | ICA Maxi | Schools | |
| J | Värnfood (50 %), Grönsaks- mästarna, Sydgrönt, Global, JH frukt & grönt, Gröna Vågen | Willy's | Farmer's Market | |
| K | Through Sydgrönt to SABA (80%) | Coop, Hemköp | | |
| L | ICA frukt och grönt | ICA (100 %) | | Partly organic |
| M | RP frukt, Grönsaksmästarna | | Farm shop | |

According to the growers selling the produce to the *wholesale market* the strengths with this channel is that they take large quantities. Another positive thing is the safety in dealing with many wholesalers. The weakness on the other hand if selling the produce to a few customers

with one large wholesaler is that it involves a larger risk. Besides you do not get any response from the end customers, seldom positive feedback and only hear something if there are complaints. The dialogue about which amount of the crop to grow is with the wholesalers and then they talk to the supermarkets and thereby the supplier comes in a “second hand situation”. This makes it hard for the grower to know in spring how much to produce. When dealing with wholesalers the profit varies but for example one grower is not satisfied with the profit this year. However when producing vegetables in large scale it is not interesting to sell directly to the consumers (K).

There are some growers more interested in *direct marketing* to the consumers, but these are often producing in smaller scale. One grower has a farm shop and sells most of his produce through this market channel. The customers have varied age and many are commuters since the farm lies between two towns and there are also tourists in the summer. The shop was started by the parents of the grower in 1975 and has been extended. The customer demand has increased and the range of crops as well, which have led to longer opening times. Besides they feel more rational in their management of the shop. Having a farm shop has no weaknesses and the strengths are good quality and that they can control the whole chain. The middle man disappears when selling directly from the farm and that means a lower cost. It is very popular with farm shops and probably the competition will increase, but it is important to be one step ahead. The customers are satisfied with the product mix, but the grower is thinking about increasing the amount of crops sold in the farm shop. There is capacity to increase and the profit is increasing a bit for every year. He is satisfied with the profit margin when selling through the farm shop, but it is also hard work. If the customers ask for something special they try to fix it for the following year (J).

Another grower sells a small amount of their produce on a farmer’s market in Malmö seven Saturdays every year and thinks it is positive and nice, but not very profitable. They would not like to increase the amount of produce sold through this channel, because they think the distribution they have now is better. It is very positive to meet the customers and get a personal response from them (K).

6.3 The competitive situation

According to the growers the competition for vegetables is mainly coming from other Swedish growers nearby in Skåne in combination with European growers such as Italian, German, Polish and Dutch growers. One grower mentioned that if some of the Swedish growers disappeared “the German growers would be ready to knock on the door (K)”. An example is that growers competing with imports fear that the foreign growers will dump the prices (J). There is a difference in the competition depending on the produced crops. With for example carrots Sweden is 90-95 % self sufficient and there is no real import pressure. One large grower of carrots has been very efficient and innovative, which has lifted the whole Swedish carrot industry (I). The competition evolves the industry and it is a way of surviving to stay competitive and produce better and smarter (K).

For iceberg lettuce there has been an increased market demand but now it has reached its roof and there is overproduction in Europe and especially in Poland and Germany (K). Two years ago the company could export to all of Europe but not anymore. The competition is getting harder and the profit margin is decreasing. There is a need for a few bankruptcies before there is a chance to make a profit. The German companies get 120 million Euros in guaranteed loan

and this tightens up the competition (K). For growers of carrots on the other hand there is a possibility of export to Norway and Finland in the future. There is no price problem and the grower is competitive. “It’s only because of tradition the company hasn’t done it before – structural changes take time (L)”.

6.3.1 Labour and strategic alliances

The labour in the companies is often foreign from Eastern Europe in combination with local labour and members from the family. “The foreign guest workers keep coming back year after year, but the ones quitting brings the knowledge to their home country”. Some growers employ Swedish school youths as well but they prefer working a shorter period of 3-4 weeks. One grower mentions the fact that they grow a wide variety of crops as something positive for the employees since they get a more even work distribution (J). Another respondent mentions the company’s location as an advantage for foreign guest workers (K).

About strategic alliances the grower selling directly to the supermarket has co operations with growers from Holland and France, which makes it possible for him to sell all year around produce to the supermarket (L). The growers selling to the wholesale market buy in produce from other Swedish growers (I, J, M) and another example of cooperation is one grower, who rents place in a fridge of a neighbouring farm when he is not using it (L). See Table 13 for an overview of the labour and strategic alliances.

Table 13. Labour and strategic alliances

| Grower | Labour | Strategic alliances |
|--------|--|---------------------|
| I | Lithuanians, Polish labour, Swedish school youth | Swedish growers |
| J | Foreign labour, family | Swedish growers |
| K | Foreign labour | |
| L | Local and foreign labour | Holland, France |
| M | Family | Swedish growers |

6.3.2 Threat of new entrants because of the EU enlargement

The majority of the growers have not seen any affect from the EU enlargement so far but they think it could lead to harder competition in the future. The need to produce smart, cheap and good will increase, but not the prices. One grower says: “The competition will mainly be on price and foreign carrots aren’t cheaper (I)”. A producer growing a wide variety of vegetables says it is possible there will be a need to specialise in fewer products, but they would like to avoid it and it is hard to expand the company because of high ground prices and also new technique will be an expensive necessity (J). Another grower of iceberg lettuce says the production in EU has exploded this year: “Last year you didn’t notice anything, but now there’s talk about what Europe pays”. Sometimes the prices are too low to be able to sell and there is a total oversupply in Sweden. “This year has been lousy”. Sometimes if there is a shortage abroad it is easier to export, but another disadvantage is that the company do not have all year round supply (K).

6.4 Organisation of growers

The interviewed growers join grower groups organised by GRO, which is an industry organisation for producers of potatoes, vegetables, fruits, berries and pot plants (www.gro.se). The majority of the respondents are positive to the organisation's work. The grower groups are especially involved in employment questions, pesticides and the market situation (K). In the group some problems are solved together with other growers and there is a close contact, sometimes several times a week. The cooperation also involves product development and gaining innovation from other countries by travelling abroad on excursions (L). One problem with the grower group is that it can become too large and then loses some in the local level (M). Two growers join Sydgrönt, an incorporated company which sells forward Swedish fruits and vegetables on mainly the Swedish market (www.sydgront.se). The association's strength is that the growers are kept united about the price (K). None of the growers are joining or interested in joining a producer's organisation.

Table 14. Description of the grower groups and producer organisations which growers join

| Grower | Organisation | Description |
|--------|---|---|
| I | GRO – grower group | |
| J | GRO Sydgrönt – incorporated association | -Positive, especially labour questions, pesticides |
| K | GRO, Sydgrönt | |
| L | GRO Grower group LRF, Lantmännen Hushållningssällskapet | -Solves some problems together with other growers -Not very good in product development -Good knowledge in organic grants |
| M | GRO | -Good and bad. Sometimes too big and loses on the local level. |

6.5 The relationship with supermarkets from grower's perspective

Even if the majority of the respondents seldom are in direct contact with the supermarkets it occurs that supermarkets sometimes make visits to their prime-producers (J). The grower selling directly to supermarkets think it is positive that they can sell a large amount of their produce to their customer and the sale is also even, which feels safe (L). The carrot growers think there have been improvements from the supermarkets with better fridges for carrots (J). However three growers mentioned that they do not think that supermarkets treat the vegetables well enough (L, J, K): "Many supermarkets don't have the carrots in fridges and instead put them directly in room temperature (L)". Another grower says that the supermarkets sometimes forget to look on their shelves and he would have wished that they put more time and interest in the product especially concerning on what profit they make on the produce.

It is also important with competent persons working in the supermarkets and too few people are working at the supermarket central stations, which makes it hard to get good contacts (K). Supermarkets should also consider a more healthy aspect and put more effort into local production (J). The supermarket chains has got too much power and it would have been nice to get more feedback from them (K). It is hard to know the development with the supermarkets in the future, but one grower thinks if they sell to one chain it will be hard to sell to another (L). On the other hand the grower selling directly to only one supermarket says this buyer does not like the grower to have only one customer.

Some needed improvements in the relation are that the growers would like to hear more and get feedback on quality from the supermarkets (I, K, M). Since less people are working for the supermarkets with few supermarket buyers it would be nicer to be able to hear more about the consumers' demands. But from the supermarkets' perspective the structure of their business is understandable (L). See Table 15 for the strengths and weaknesses in the relationship between growers and the supermarkets.

Table 15. The relationship between supermarkets and growers

| Grower | Relationship | Strengths supermarkets | Weaknesses supermarkets |
|--------|---|--|---|
| I | no contacts | | -never gets response from supermarkets |
| J | none, sometimes supermarkets visits | | |
| K | no direct contact, meets Coop sometimes | | |
| L | very good cooperation | -big buyer -safe income -continuous sale -project with better fridge for crop | -risk with only one customer -only one customer has large power -no written contracts |
| M | no | | |

6.6 Produce schemes

The growers can join different production schemes and they are associated in IP (Integrated Production); some growers also join Eurep GAP (J, K, M). The grower selling directly to supermarkets also joins ISO (quality and environment) and BRC (British Retail Consortium). Many growers are rather positive to the rules, but think it is time consuming with the paperwork and rather expensive. See Table 16 for more detailed description of strengths and weaknesses of the schemes.

Table 16. Positive and negative influences from growing schemes

| Grower | Growing scheme | Positive | Negative |
|--------|--|--|---|
| I | IP | OK | |
| J | IP, EUREP Gap | | Not sure same demand on foreign as Swedish production |
| K | IP, EUREP Gap rules | OK | Some rules are ridiculous |
| L | IP, ISO (quality & environment), BRC, EurepGap | Positive all together, grower competitive position | Very expensive Time consuming |
| M | IP | Many good rules | Bureaucratic. Many consumers don't know about IP |

6.7 Origin branding and labelling of the produce

Some growers are satisfied with the marketing of vegetables and others are not: “Shops could do more marketing and growers own marketing is also rather bad but the quality is good (J)”. It is important to have satisfied consumers and healthy products with good taste, appearance and quality (K, L). One comment was that the “industry has small muscles (K)”.

The growers which have their own brand label see it as rather important and think it gives advantages (I, J, M). Sydrönt and the growers make shop demonstrations and promotions, but it is mostly about decreased price. Another example of marketing is community events, which help to promote the producers in the local area (I, L).

Swedish branding is considered to be positive both inside and outside Sweden if the quality is good, but also the price is important. One grower thinks people in rural areas care more about it than people in urban areas and it's getting less important in future (K). “You can't always see if the produce is Swedish or not from the branding of the produce (J)”. It should have been preferable with more Swedish products inside the country since the control of pesticides and raw material is stricter (M). In south western Skåne they have started with “Goose-labelling”, which shows the produce is locally grown. “However there is a need for more engagement from the supermarkets for locally grown crops (J)”.

6.7.1 Supermarket's or wholesaler's own brand label

Three growers sell their produce under supermarket's or wholesaler's own brand labels. For more information see Table 17. These growers do not see the supermarket's own brand labels as a threat but there is a risk to be changed for another grower if not using them (K). One grower uses Sydgrönt's label and think it is good because it is more neutral and they got a good relation to the association's buyers (K). One grower says: “You can't stir the market forces and it's different if trying to market your own brand label brand label”. ICA's brand is big, safe and worthy and it has increased the market share (L). On the other hand organic carrots have decreased and this could be because of the competition from supermarkets own brand labels. The growers which are not selling under supermarkets own brand labels are more negative against it and think it's anonymous (J)”. The same grower says it is a pity selling the produce under cheap brands such as Euroshopper. “It's hard to know if supermarkets own brand labels are a threat or not, it depends on how it develops (J)”.

6.7.2 Strengths and weaknesses in adding value to the produce

Two growers did add value to their produce such as different packages but none of the growers were producing prepared vegetables (see Table 17). One grower thought: “too much investment and a large organisation were needed if doing for example prepared salads (K)”. Another grower said he thought the Swedish market is a bit too conservative and that it is hard to sell prepared when the prices on ordinary salad is so low (K).

Table 17. Marketing, labelling and added value of the produce

| Grower | Marketing | Labelling | Added value |
|---------------|--|---------------------------------------|--------------------------------|
| I | Satisfied with marketing. | Own label Wholesaler Brand Buffé | Wash, different packages sizes |
| J | Not satisfied with marketing. Shops could do more marketing. Growers own marketing rather bad but has good quality | Own label | No |
| K | Sydrönt and growers make shop demonstrations and promotions – decreased price. Satisfied with marketing | Veggo - Sydgrönt's brand label | Different packages |
| L | Minimal marketing of own produce Community event this weekend special plastic bags | ICA's own brand label, Euroshopper | No |
| M | Own brand label associated with company important | Own brand label | No |

6.8 Summary of Chapter 6

The choice of specialising in a few or a wide variety of crops combined with the size of the company affects the market position and choice of channel for selling vegetables. Among the interviewed growers it is more common to sell to the wholesale market than supermarkets in Sweden compared to Scottish growers, which sell more directly to supermarkets. The competition is mainly coming from Swedish growers, but this also depends on the crop in question. With for example iceberg lettuce the competition from other parts of Europe is strong. The growers competing with producers from Europe also seem to be more concerned with the enlargement of the EU. Carrot growers on the other hand has a strong and price competitive Swedish market.

The organisation of producers in grower groups is something the growers are very positive to. However the growers agree on producers organisation not being of any interest to join. The Swedish growers participating in the interviews seemed to be more attached to their own brand label and were more interested in marketing their produce. The reason for this can be that they are not selling to the supermarkets. Supermarkets and wholesaler's brand labels seemed to be accepted in general but the growers were sceptical to low-price brands as for example Euroshopper. Added value of the produce has not gained an as strong market in Sweden as in Scotland and since the demand is rather poor fewer producers have invested in machinery to produce prepared vegetables. Having a direct relationship to the supermarkets is not as common in Sweden as for the Scottish growers. However many producers would prefer more feedback from supermarkets and that the crop should be better taken care of in the store. The produce schemes are considered to be good but the grower following many different schemes thinks it could go over the limits.

7 Analyses

The changes in the supply chain with supermarkets getting a stronger position and growers having less power give an unbalanced relation. The growers have answered to this by changing the structure and organisation of their farms and having more competitive strategies.

7.1 Strategies

Over the years there has been a trend where the companies on average are larger and more specialised in fewer varieties of vegetables than in previous years. The number of companies has also decreased in both Scotland and Sweden. Different strategies are available to choose between according to Porter (see Chapter 3) and the company can reach a more or less competitive position. The competition strategy is about positioning the company so the advantages is used to the maximum.

Companies choosing the low price strategy must be rather large to get the advantages and profit from offering their buyers a low price. The supermarkets seem to prefer suppliers which can offer low prices and a large supply. Specialised growers can easier hold down their production costs but it also gives a harder pressure on the environment. The possibility is also that supermarkets can demand a wider range of vegetables from one single supplier but still with low prices and large supply. This will lead to companies of an even larger size. At the moment it seems good from the grower's perspective to offer one or a few varieties of crop from an economic viewpoint. However when looking at the environmental aspect or problems with pests its preferable to have a wider variety of crops. This comes with lower risks but could be less profitable for the company.

Using the differentiation strategy can also be an alternative for innovative companies which can gain market share by offering something unique or different in the industry. It is also possible for the company to ask for a higher price for their products and the competition will not be as fierce as for the competitors choosing the low price strategy. To focus on a certain segment or buyer group can also be an alternative to gain success. The smaller companies choosing to sell their produce on farmer's market or through box schemes can be profitable by avoiding selling through market channels craving low price produce. Also large companies can choose to focus on a special market segment. The problems for companies stuck between these strategies can be rather problematic. The combination of not having low production costs to be able to offer a low price and a non-differentiated product not focusing on a profitable buyer group can have devastating effects.

7.2 Porters 5 forces; rivalry and substitutes

Looking at the competition model the situation in Scotland compared to Sweden is rather similar in several ways. The rivalry is mainly coming from domestic production (Scottish or Swedish) but also from other parts of Europe. In Scotland competition from English, Dutch and Spanish producers was mentioned. The Swedish growers were more affected by Germany Italy, Poland and Netherlands, according to the respondents. Threat of substitutes to fresh vegetables can be processed, dried (herbs) or frozen vegetables. Also low price food and junk food can compete with vegetables, which is a healthier alternative.

7.2.1 Bargaining power buyers

The buyers of vegetables can exert power against the growers by squeezing the prices or putting up strong schemes for the produce. A way to make the relation less personal is by changing the supermarket buyers often and letting them show their skills by bargaining for the lowest price. Since there are no contracts between growers and their buyers this also makes it

easier for supermarkets to delist their suppliers. The buyers have many suppliers to choose from because of the overproduction in Europe and the suppliers are in a rather weak position. Supermarket and wholesaler's own brand labels is another way for the buyers to reach an advantageous position and control since the grower loses its opportunity to market their produce towards the end consumer. Initiatives as healthy branding and local labelling of the product can be an advantage for the supplier. Promotions of the product from the buyer's initiative can be positive for the supplier. However, promotions are often about forcing down the price even more on the suppliers' behalf and thereby cut their profits.

7.2.4 Bargaining power suppliers

The suppliers to growers are for example the providers of plant material, packing and electricity to greenhouse growers. Also the labour is an important supplier along with strategic alliances. The suppliers doesn't force as strong power as the buyers in this industry but can still affect quite a lot by for example rising the prices on their services.

7.2.5 Threat of new entrants / barriers to entry

The EU enlargement can lead to new entrants on the market resulting in an increase of the competition. Also the globalisation is a source of competition pressure when foreign produce with lower prices can be offered to the buyers. The increase in competition from supermarkets also affects the growers when stores are being bought up by other chains such as for example ASDA being bought up by Wal-Mart, Safeway by Morrison and ICA to 60 % by the Dutch company Ahold. High start up costs for growers can as well make it harder for new companies to enter the industry and rules from supermarket schemes or governmental regulations. The EU politics and changes of the Common Agricultural Policy subsidies affect the growers as well.

Barriers to entry into other markets when selling vegetables to the supermarkets is that the majority of consumers uses the supermarkets and this makes it hard to increase the amount of produce sold through other channels. Other barriers to entry the market can be too high price or a short season.

7.3 The relationship between supermarkets and suppliers

The relationship between growers and their buyers is changing depending on the chosen buyer group. The growers selling their produce on farmer's market or through vegetable box schemes feel a closer connection to the end consumers and can easier get response from them. The growers selling the produce to supermarkets or through wholesalers do not get as much feedback from their buyers but can in return sell a large amount of vegetables without having to deal with several customers. This is more time efficient but it also involves a larger risk to only have one or a few buyers if something in this relation fails to please both parts. The problem can also be that a large buyer bargaining with a small grower can have a favourable position due to the overproduction of vegetables and a large number of vegetable producers willing to sell their produce.

7.4 Comparison between Scotland and Skåne

The industry has developed to different degrees in Scotland compared to Skåne. The question is if this depends on different consumer demands and market or if the situation in Sweden will look the same as in Scotland after a couple of years. Will the market climate in Scotland be even harder in the future or will a development towards a more diverse market and harder rules from the competition commission give a more diverse market with more power for the growers? Unfortunately the development seems to go in a direction where supermarkets continue growing stronger and more powerful and it could be a hard trend to turn. It is hard to take away the power from one side of the supply chain without harder rules from the government and competition commission.

The growers which I have interviewed in Scotland have on average larger farms and it is also more common to deal directly with the supermarkets. On the other hands there seems to be a tendency where the grower has to be larger to sell directly to the supermarkets in Scotland. The answer can also be that the specialised growers can have advantages when cooperating with supermarkets even if they are smaller than the growers with a wide variety of crops. Then again it is important to remember the environmental external effects from specialisation in a few crops. Generally the Scottish respondents seem to be more upset by the supermarkets behaviour than the Swedish. This is also due to the larger number of growers having a relationship to the supermarkets. The Swedish respondents were rather satisfied with the relation to the wholesale market. The buyers working for the wholesale market seem to be more reliable than the ones working for the supermarkets. The growers were satisfied with the schemes and standards the buyers set up for the produce but the big horticultural companies joining several different standards thought the standards could be too high.

8 Discussion and conclusion

The relationship between vegetable producers and supermarkets can be described as rather impersonal. The supermarket buyers are in contact with the producers and there are no written contracts but only verbal agreements. The growers consider the relation between them and the buyers to have become less personal over the last five years. The buyers have also developed into being more concerned about a low price and care less about the product and technical issues.

The producers have to meet certain standards to be allowed to sell their produce to the buyer. This is considered to be something positive and stands for a quality guarantee towards the customers. However the limits for these standards are constantly increasing and some growers thought a number of rules could be unnecessarily high or even ridiculous. The fact that the supermarkets audit the control out to a third party in Scotland could lead to higher standards. Since the audit company would like to increase their profit they tend to steadily make the rules tougher. On the other hand it is positive to not have fixed limits for the produce but always trying to improve the environmental efforts.

Supermarkets prefer dealing with larger suppliers offering high volumes and low prices. Innovative producers specialising in a certain crop, added value products or a special buyer segment can also gain advantages when dealing with supermarkets. Choosing a strategy involving specialisation instead of only offering a low price could be more advantageous for

the producer. However this depends on the scale of the production, the cost of investments for adding value combined with customer trends.

The unhealthy way of living in Europe is a large problem and the situation can be improved with increased encouragement for healthy food. There is already a trend with demands for more healthy food and this could be even more promoted. Since the supermarkets have got a large impact on the consumers' choice of food this could be used to increase the consumption of vegetables.

The supermarkets growing power in the food supply chain has forced producers in both Scotland and Sweden to develop their strategies. It is getting more important for suppliers to cooperate with each other towards a stronger position in relation to the supermarkets and for better control of the supply chain. Producer organisations could be a tool to be able to deliver larger quantities for the suppliers. However when asking the growers about their experiences of producer organisation many of them seem to be rather negative. Grower groups on the other hand seemed to be a more suitable way of sharing thoughts with other growers.

There could be opportunities for producers in Scotland as well as Sweden to further develop farmers' markets with local production. This market channel suits smaller producers with a broad variety of crops. The barrier to increase other market channels than supermarkets is that the majority of the consumers prefer using the supermarkets when buying vegetables because of the convenience of shopping everything in one store. Marketing is also an important tool for increasing the value of horticultural products. It seems as some Scottish and Swedish producers have good opportunities competing with high quality vegetables but not with low price. The changes of the market are important to keep up with for survival in the increasing hyper competition of the food supply chain. Since low prices are important to please the markets demands it could unfortunately be costly and hard to care as much as necessary about the environmental effects of production.

The question is how to improve the situation for the growers in an efficient way. One answer could be stricter rules from the competition commission or forcing the supermarkets to have contracts in written with their suppliers. On the other hand many of the interviewed growers did not think written contracts would be a good solution. It is hard to force the authoritative and successful supermarkets back when they have gained their strong position over several years. If the growers organise themselves in a better way they could be stronger in relation to their buyers. Another problem is the overproduction in Europe which leads to decreased prices on vegetables and oversupply. It would be preferable to have a market situation in harmony and this can change with a decrease in produced vegetables or an increased demand from consumers leading to increased consumption. There have been proposals to lower the taxes on healthy foods due to savings for the society if people are encouraged to eat healthier and avoid unhealthy food. This could be positive for the vegetable producers.

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Appendix

1. Questions growers

1. Which crops do you grow on your farm?
2. What is the size of your farm?
3. Can you describe the history and development of your farm?

4. Through which market channels do you currently sell your produce?
5. Would you be interested in directly selling your products to consumer?
6. Are you interested in selling vegetables direct to the consumer without any middle hands?

7. Where does the competition for your produce come from?
8. How long is the season for your production?
9. Do you have any strategic alliances with growers in other countries?
10. Do you think the EU enlargement will affect the competition for Scottish vegetables?
11. Are you joining any producer's organisation or other form of organisation?
12. What's your view about how HDC use their levies?

13. How do you market your produce and brand label?
14. Are you satisfied with the current marketing of your produce?
- 15 a) Do you think Scottish products have such an image so that the consumers prefer them within Scotland?
 - b) Outside Scotland?
 - c) What do you think is the general image of Scottish produce?
16. How do you think supermarket's own brand label affect your marketing situation?
17. Have you made any effort to add value to your produce through product development?
18. What do you consider to be the strengths and weaknesses of adding value to the produce?

19. What do you think are the strengths and weaknesses in your relation to the supermarkets?
20. Which supermarkets do you sell your produce to?
21. Do you have different experiences in negotiating different supermarkets?

22. How do you think the relationship between producers and supermarkets can be improved?
23. What do you think about the profit margin you make when selling your produce to supermarkets?
24. Do you have any binding contracts for selling your produce to supermarkets?
25. Who do you think take the biggest risk if a contract is broken the supermarket or the grower?
26. What do you think about the rules supermarkets have put up for your produce, such as Nature's choice and Assured Produce?
27. What happens to your produce if it doesn't pass these criteria?