

# Concerted Action

## DOLPHINS

Development of Origin Labelled Products :  
Humanity, Innovation and Sustainability

Contract QLK5-2000-0593

### WP 2

Link between  
Origin Labelled Products :  
and local productions systems,  
supply chain analysis

*Final Report*

July 2002

**Project Coordinator :**

**France (B. Sylvander, INRA-UREQUA, Le Mans)**

**Project Partners :**

**France** [INRA-ESR ETIC, Toulouse] [INRA-LRDE, Corte] [CMC Avocats, Le Mans]

**Italy** [University of Parma - IEAF] [CRPA, Reggio Emilia] [University of Florence - DES]

**Switzerland** [SRVA Lausanne]  **Germany** [TUM-PFM, Freising]  **Spain** [SIA-DGA, Zaragoza]

**United Kingdom** [University of Newcastle - AEFM] [University of Edinburgh - IERM]

**Belgium** [FUL-SEED, Arlon]  **Finland** [University of Helsinki - DEM]

**Portugal** [INIAP-DEEESA, Oeiras]



## Contents WP 2

### Link between OLP and local production systems, supply chain analysis

<b>Part I : SYNTHESIS</b>	<i>(Luis Miguel Albisu, DGA-SIA, Zaragoza, Spain)</i>	5
<b>1.1. FRAMEWORK</b>		7
1.1.1. Obligations of WP 2		7
1.1.2. Members of WP 2		7
1.1.3. Methodology		7
<b>1.2. MAIN FINDINGS</b>		8
1.2.1. Delimitation of the relevant supply chain system and subsystems		8
1.2.2. Management and social leadership		9
1.2.3. Supply chain stages		11
1.2.4. Governance issues		13
<b>1.3. FURTHER RESEARCH</b>		16
1.3.1. Interdisciplinary research		16
1.3.2. Marketing of OLPs		16
1.3.3. OLPs launching		17
1.3.4. Collaboration and competition		17
1.3.5. Learning process		17
1.3.6. Neoclassical and other economic theories		17
1.3.7. Efficiency studies		17
1.3.8. Management organisational models		17
1.3.9. Management and leadership issues		18
<b>1.4. POLICY RECOMMENDATIONS</b>		18
<b>REFERENCES</b>		18
<b>PART II : LITERATURE REVIEW</b>		19
France	<i>(Bertil Sylvander with coll. Armelle Champenois, Bernard Lassaut, Marc Leusie, INRA-UREQUA, Le Mans)...</i>	21
	<i>(Nicolas Trift, INRA-LRDE, Corte)</i>	43
Germany	<i>(Michael Besch, Helmut Hausladen, Burkhard Schaer, Frank Thiedig, TUM-PFM, Freising)</i>	49
Italy	<i>(Filippo Arfini, Università di Parma, IEAF, Dipartimento di Economia)</i>	57
	<i>(Kees de Roest, CRPA-SPA, Reggio Emilia)</i>	69
	<i>(Silvia Scaramuzzi, Giovanni Belletti, Andrea Marescotti, Università di Firenze, DSE)</i>	77
Portugal	<i>(Artur Cristovao, Manuel Luis Tiberio, UTAD-DES, Vila Real)</i>	91
Spain	<i>(Luis Miguel Albisu, Xhevrie Mamaqui, DGA-SIA, Unidad de Economía Agraria, Zaragoza)</i>	101
Switzerland	<i>(Jean-Marc Chappuis, Sophie Réviron, ETHZ-IER, Lausanne)</i>	107
United Kingdom	<i>(Kate Corcoran, Ron Wilson, University of Edinburgh, IERM)</i>	117

**ANNEX : WP 2 SEMINAR, BOLOGNA, JANUARY 2002** ..... 127

## **Part 1**

# **Synthesis WP 2**

**Link between Origin Labelled Products  
and local production systems  
supply chain analysis**

**Luis Miguel Albisu**

**DGA-SIA  
Unidad de Economía Agraria  
Zaragoza, Spain**

**with the collaboration of**

**Kees de Roest, CRPA, Reggio Emilia, Italy  
Silvia Scaramuzzi, Università di Firenze, Italy  
Jean-Marc Chappuis and Sophie Reviron,  
ETZ-IER, Lausanne, Switzerland**

## 1.1. FRAMEWORK

### 1.1.1. Objectives of WP2

The objectives of the WP2 were:

- ?? Analysis of theoretical and analytical tool and methods used in the analysis of OLP local production systems
- ?? Analysis of vertical co-ordination mechanisms among firms in the supply chain and agri-food system analysis
- ?? Analysis of local connections
- ?? Analysis of local production and marketing systems related to OLP products (case studies)
- ?? Analysis of differences in production and marketing systems relating to 'conventional' products or other 'typologies' found in high quality food products
- ?? Identifying needs for further research.

### 1.1.2 Members of WP2

WP2 was co-ordinated by Luis Miguel Albisu (Agricultural Economics Unit, Agro-Food Research Service, Aragón Government, Zaragoza, Spain)

The assistants was Kees de Roest (Centro Ricerche Produzioni Animali [CRPA], Reggio Emilia, Italy) and Kate Corcoran and Ron Wilson (Institute of Ecology and Resource Management [IERM], University of Edinburgh, United Kingdom)

The following participants were members of WP2:

Country	Partners	Researchers
France	INRA-UREQUIA, Le Mans	Bertil Sylvander and Bernard Lassaut,
	INRA- LRDE, Corte	Nicolas Trift
Italy	Università di Parma, Istituto di Economia Agraria e Forestale, Dipartimento de Economia	Filippo Arfini
	Università di Firenze, Dipartimento di Scienze Economiche	Silvia Scaramuzzi
Switzerland	ETHZ-IER, Lausanne	Jean Marc Chappuis and Sophie Reviron
Germany	Technische Universität München-Weihenstephan	Michael Besch and Adriano Profeta
Portugal	Universidade de Tras os Montes e Alto Douro (UTAD), Departamento de Economia e Sociología, Villa Real	Manuel Luis Tiberio
Spain	Agricultural Economics Unit, Agro-Food Research Service, Aragón Government, Zaragoza,	Luis Miguel Albisu
United Kingdom	Institute of Ecology and Resource Management [IERM], University of Edinburgh	Kate Corcoran and Ron Wilson

### 1.1.3 Methodology

#### Phase 1 (Firenze meeting)

This phase covered from February 2001 until September 2001, when the Firenze meeting took place. Each team elaborated a paper dealing with the literature review found in each country. In some countries, there was an integrated report and, in other countries, several complementary pieces were submitted. Each report gathered the most important research undertaken with respect to the WP2 topics as well as a selection of the most important research articles found in each country to finalise with the main research issues. The documents were circulated among WP2 members before the Florence meeting, which helped the discussion at the meeting.

In our case was of paramount importance to have good case studies to have a better understanding about the issues dealing with supply chain analysis. There were two invited speakers who came from the private sector to share their views about current issues between OLPs firms and the distribution system. There was a person related to OLP firms and a person from the distribution system. The first speaker was Cristiana Clerici, from the Consorzio del Formaggio Parmigiano-Reggiano, and the second speaker was

Mario Cifiello, general buying manager of Coop Italia. In the first case the presentation dealt with the general policies undertaken by the Consorzio and problems along the supply chain. The second case was a presentation about strategic developments of Coop Italia dealing with typical products. Both speakers presentations raised numerous questions that were discussed with them thoroughly and they were, later on, dealt among WP2 members.

The overall debate focused on two main themes or questions:

1.- Are OLPs business different from other products?

Many different aspects were mentioned such as physical characteristics, regulatory institutions, quality assurance schemes and collective actions. A number of issues seemed to be relevant for further studies: collective governance studies, quality policy and attitudes with respect to innovation.

2.- Are OLPs business strategies efficient?

Efficiency had to be defined and compared with respect to other agro-industrial firms, as main references. Concentration patterns and internationalisation expansion are probably the two most important changes in the distribution system and they have to be dealt carefully by these enterprises. A number of related topics should be relevant for OLP firms in the future: How to deal with the new situation, how to find out appropriate analytical frameworks, distinctive opportunities for OLP firms of small and medium size, vulnerable dependence from big chains, distribution strategic decisions and collective action and bargaining power linkages.

## Phase 2 (Bologna meeting)

The Bologna meeting took place 18 January 2002. WP2 members presented their papers the discussion addressed the following questions:

1. how individual firms, although being mutual competitors, do succeed to act collectively and to work out a product specification (code of practice) for a local typical product?
2. how small scale producers of a typical product are able to achieve and to maintain a sufficient competitive advantage on industrial food producers?
3. which vertical co-ordination mechanisms turn out to be most successful in OLP supply chains, why and at which conditions?
4. to which extent the severe competition of some OLP's with lower priced industrial imitations may provoke the introduction of technological innovations which may compromise the "quality link" of the product with the terroir? Or may OLPs resist being guided by their own specific technological paradigm?

## Phase 3 (Paris meeting)

The Paris meeting took place the 6<sup>th</sup> and 7<sup>th</sup> of May. At the first part of the meeting a review of our previous work was presented. Afterwards team members were asked to fill a check list of the most important issues. The main areas of concern were:

- ?? Delimitation of the relevant supply chain system and subsystems.
- ?? Management and social leadership.
- ?? Supply chain functions: Marketing issues, transformation stage, distribution channels
- ?? Governance issues
- ?? Further research
- ?? Policy issues

The partners decided to share the writing of the final report.

## 1.2. MAIN FINDINGS

### 1.2.1. Delimitation of the relevant supply chain system and subsystems

OLP supply chains must not be considered as closed systems. They are under external pressure of the competing subsystems, that sell their products on the same consumer relevant market. All OLPs have to face pressures at the edge of the supply chain where suppliers, competitors and trade interact. In order to understand the dynamics of these interactions it is necessary to develop an inter-disciplinary approach via a sound theoretical framework. The impetus for a sound theoretical framework comes firstly from the need to avoid descriptions that are not comparable and secondly, to allow the analysis of organizational choices on a given market

and trade negotiation rituals, given that management knowledge and 'know-how' are not dedicated to these topics.

It is necessary to assess the whole attractiveness of the relevant market on which the firms of the OLP are operating and to analyse the sub-systems structure and working, in order to optimise the OLP supply chain strategy. A good mapping of the concerned supply chain is a first step to be able to compare the case studies positions. The approach being adopted by Révion and Chappuis (2002) is to review ex post, three types of supply chain contractual arrangements:

- ?? Bilateral contractual arrangement (all products)
- ?? Horizontal market arrangements (all products)
- ?? Vertical arrangements (OLP products)

On a given level of the supply chain, the market system is seen as having a strong collective horizontal organisation of sellers and buyers with contract templates, which are often negotiated within specific institutions of the market. The vertical co-ordination within a PDO supply chain replaces the horizontal traditional arrangements on the intermediary markets. Operators have to leave partially or totally their previous partners and negotiations rituals. The conventional market systems are generally still active and compete with the PDO supply chain on the consumer market. A method to identify the boundary of each competing sub-system, contract templates and horizontal negotiation structures was presented at the Bologna meeting and illustrated with the Swiss Raclette du Valais cheese case study 1999/2000 (industrial production of 12,000 tonnes and an artisan production of 2,000 tonnes).

This approach opens two main issues :

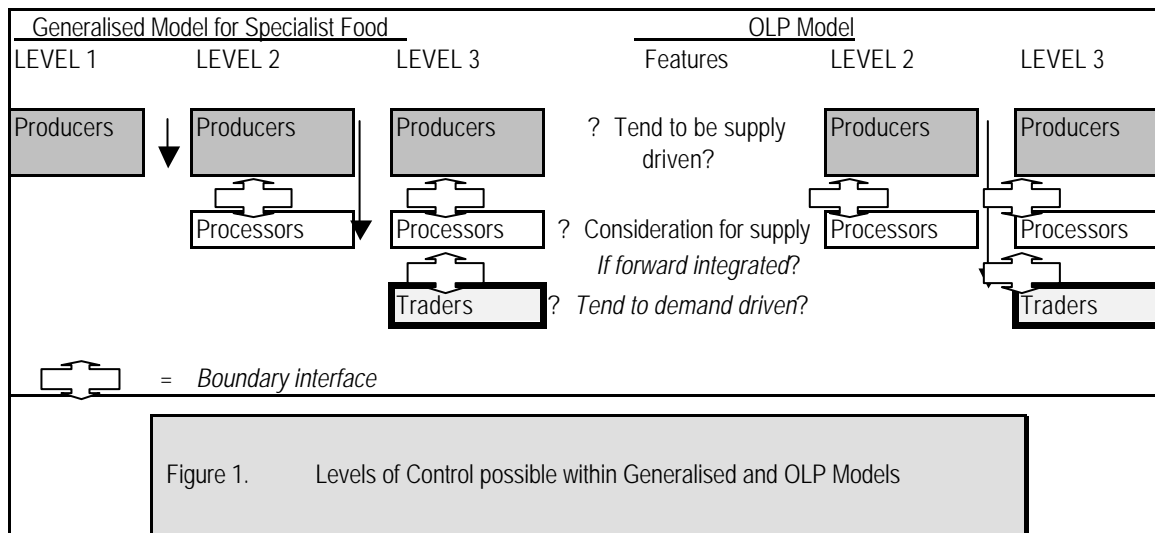
- ?? The OLP name and image attributes' protection (according to WP1 conclusions). It seems that location (village) names are easier to defend than non geographic names.
- ?? The antitrust law philosophy : Inquiries are being held in different countries. The European antitrust law philosophy is still founded on a neo-classical model, that is, according to all WP2 partners, not adapted to OLP products (see point 2.4 below). We have to demonstrate with economic theoretical arguments that alternative organisational models give benefits to the consumer and reinforce competition. It is very important to let the OLP collective centres of operations have the same rights (classical marketing decisions such as controlling quantities and prices) than the industrial firms, with which they are competing on the consumer relevant market.

### 1.2.2. Management and social leadership

Effective management and social leadership are recurring and key facets of successful OLP businesses. Particular OLP objectives will modify conduct within individual OLP firms and between cooperating OLP firms within a cooperative alliance. Sylvander discusses the essential element of PDO and PGI businesses that stem from a process of collectivisation. However irrespective of size or organisational configuration, an OLP business will have a level of command within its structure, where certain management and decision making takes place. However, these activities, their interaction and sphere of influence, will be modified by:

- ?? the degree of vertical integration within the chain, and the legal and contractual obligations between members within the OLP business and chain
- ?? the scale and size of the business operation
- ?? management functions including those associated with long-term economic and non-economic motivation

The degree and level of vertical integration will have implications for the type of management seen depending on the legal and contractual obligations established between cooperating firms. Comparing activities for OLP businesses with the model for general specialised food production, Figure 1 shows that within the OLP model, cooperation of activities must take place at the first two levels (producer and processor) and may also involve the third level – that of trader or retailer. At the business management level, factors that must be managed collectively include: codes of practice; technical specifications for the product and product variation; contractual supply of OLP and leeway to supply (and ratio allowed) of non-OLP (de Roest, Arfine and Scaramuzzi); pressure from trading with multiple retailers (Besch); screening of new entrants, and importantly, supply chain negotiations of contract templates (Chappuis and Révion). The focus of attention is likely to be the last place power in negotiation is possible i.e. ability to influence the outcome of the negotiation. If the chain is fully vertically integrated, this could take place at retail level.



Level 1 – production only but business must interface with an external organisation for processing activities to be carried out. Level 2 – producer and processor controlled by the same organisation and producers may or may not also process. The level of integration at which the supply chain operates has implications for the configuration of the supply chain and the need to balance the needs of the component interest groups (Albisu). The management role is frequently embodied in the firm or institution's board of management and for OLPs, control by the board of management becomes diluted as the process of vertical integration evolves forward (Figure 1). This can be ameliorated by the enforcement of the contract and codes of practice.

The size and scale of individual OLP business and cooperative groups will affect the nature of the collective management that OLP firms and supply chains adopt. OLP firms, may need to come together to form a committee of management or alternatively appoint a 'board of management' with dedicated management functions such as marketing, being carried out by appointed board members.

The long-term economic and non-economic motivation of OLP firms will dictate a range of management strategies depending on the nature of individual OLP firms' motivation and their collective agreement on the objectives of the OLP business within the supply chain. OLPs exist for a number of reasons and often where maximization of profit is not the driving motivation. Reasons include the carrying on of a local tradition, or the opportunity to use a local resource or skill. Where non-economic motivations are strong, the nature of management and leadership tends to be less aggressively market orientated but geared to the community in which it operates. Corcoran and Wilson assert that profit maximization and the utilisation of conventional non-OLP assessment and management tools are key features in the UK, based on a survey of UK OLP business early in 2002.

Sylvander suggests that operator motivation defines the necessity for differentiation and protection in a precise area and identifies three main types of OLP firm:

- ?? the 'initiator' type, who was the first to spot the opening, to obtain legal protection, and/or to see the need for better differentiation of the product on a collective basis
- ?? the inter-professional body, that is the applicant group (linked to Regulation 2081/92) which sought legal protection for the product under PDO / PGI schemes, and
- ?? the channel captain, or the economic leader in the supply chain who galvanises other members into action

Specific functions include commercial skills, management skills and tools, social leadership and human involvement for example, and can affect:

- a) coordination and cooperation among firms with regard to product management. This can increase the capacity of a firm to develop which brings out the product's differentiation potential or facilitate the ease with which each operator can appropriate the ideals and mechanisms of the collective process (Sylvander). This is achieved by motivating cooperation in common areas of production e.g. sourcing of raw material (Albisu *et al*), and through effective project management and coordination within the group. This allows the product potential to be maximized by invoking codes of practice and the institution of effective and efficient quality control. Key management attributes are the ability to negotiate, both within the firm and in external discussions, and the capacity to delegate responsibility and effectively divide the firm's tasks among staff or firm members (Corcoran *et al*). Effective communication and promotion of the links between an OLP product's natural and intrinsic characteristics and the consumer also requires management flair and strategic planning in the later stages. However Trift discusses the need for all actors in the supply chain to initially undertake collectively actions to 'mark' and certify the origin of their meat initially, to be subsequently used to access markets. This process also requires a level of management expertise to bring it about.

The influence of social leadership on issues of wider rural development such as OLP SMEs' strategies and funding, agro-food business development, compulsory collaborative networks, are discussed by Albisu *et al*, 2002. Social leadership is significant



for innovating and launching new products (Besch) and to develop sustainable trading frameworks based on loyalty, commitment and trust and to harness the diversity of skills found in collective membership groups (Albisu).

- b) coordination and cooperation among firms with regards to marketing management. Here the driving enthusiasm and marketing vision of the initiator has to motivate other operators to focus on the end market (retailer/ consumer), while allowing individual firm's interests to be pursued. This process generally evolves into the differentiation of activities within the collective group and the emergence of function-specific institutions for defining codes of practice, testing and inspection, grading, promotion, marketing management or research and development (Sylvander). However, Roest *et al* highlight the need for further research into the interactions and consequences of trading with multiple retailers while Besch sees the need for future strategic planning for OLP businesses to be supported by public institutions and collective branding of the representative product, correctly priced and positioned, as the way to achieve a critical product mass at a fair price in the modern marketplace.

### 1.2.3 Supply chain stages

#### a) Distribution channels

##### Strategic distribution channel selection

The choice of a distribution channel for a typical product has not to be casual. The managers of specialised shops or of distribution chains, hiper and supermarkets, often adopt different strategies. The discrimination variables for producers to access a distribution channel are the level of trade costs and the capacity to guarantee a stable quality and an adequate level of supply. The different levels of costs, caused by the exploitation of the economies of scale, as the different kind of service supplied by retailers, allow the typical product to position itself not only in relation to its selling price but even in terms of specificity. The large scale production required by multiple retailers may lead to standardisation and harm the idea of a "value product" in the imaginary of the consumer.

The marketing of many OLPs is often one of the weakest links in the chain. Many firms belonging to an OLP supply chain tend to be more product oriented than market oriented. Pride of the product and loyalty to the traditional production techniques may generate a highly valuable product qualities, but it is definitely not a guarantee for a sound and successful sales strategy. The position of many OLP firms is that the product should be appreciated by the consumer as it is, as the quality is the result of the combined effect of natural and human (artisanal) factors present in the production area

All individual firms which take part in an OLP supply chain pursue their specific firm strategy, but are bound to a code practice of the product which imposes limits to the direction of technological innovation. According to the Porterian scheme the firm strategies can roughly be categorised in cost leadership, differentiation and focalisation. The distribution channel selection of the firm heavily depends on the firm strategy and is crucial for the success of the followed strategy. Ideally a strategy of focalisation, pointed at the highest artisanal quality of the OLP, is related to the specialised gastronomy shops, whereas the firms pointing at the cost leadership will be attracted more to the multiple retailer as this channel demands a standardised product.

The standardisation of an OLP anyhow is to certain extent a paradox, as intrinsically the quality of an OLP is variable in time and in space being linked to the human and natural factors of the production area. Selling OLPs through the multiple retailer store may thus pose problems for the maintenance of the original product quality, especially when the retailer is forcing the production to unprecedented volumes. At the same time the multiple retailer may be considered an opportunity for small niche OLPs which may find rapidly larger markets, as otherwise they would be restricted to their small production area.

##### Distribution strategies to sell OLPs

An increasing number of multiple retailers is launching private umbrella labels directed towards the promotion of OLPs in the market. This strategy of multiple retailers belongs to the attempt to differentiate the product supply from competing retailer chains. Carrefour in France, and Conad and Coop in Italy have already finalised their private OLP labels, which at one side may constitute an opportunity for SMEs (larger consumer markets), but on the other side may create a threat. An asymmetric price transmission in the OLP chain, at the benefit of the multiple retailers, may erode the extra value added, which previously was captured by the producers and processors of the OLP. The firm label in this case disappears completely and towards the consumer the multiple retailer is playing the role of the guarantee of origin. Another problem which may rise is that the strong control exercised by retailers on processors may conflict with collective code of practices of OLP producers. Contract templates proposed by consortia or interprofessional bodies, which represent the OLP firms, may reduce the transaction costs in this final link of the OLP supply chain, which are high due to mistrust of the counterparts.

##### Short channels and new means (E-commerce)

Internet presents interesting opportunities for small niche OLPs to sell at large distances. Successful examples are already in the market and E-commerce may represent an interesting alternative to multiple retailers. Transaction and transformation costs inherent

to the problem of the logistics of transport and conservation still hinder a further expansion of the E-commerce market, but progress in conservation and packaging technology may enable growth, especially for small OLPs in the near future.

### **Market proximity and personal involvement**

Most OLPs are sold at local markets and its quality is appraised by local domestic quality conventions. The proximity to the area of production makes the product better well-known and so more appreciated by consumers. On the contrary, the distance from the place of production makes the product as a "carrier" of values of that particular territory of origin and contributes to make it known as a synthesis of the traditions and the image of the area from which it comes from. For this purpose OLPs are used through their promotion as a tool to foster rural development, but this issue has been deeply analysed in WP3.

### **b) The role of the transformation stage**

#### **Interphase aims: the need for coordination between producers, transformers and distributors**

The OLPs supply chain is often very fragmented with the contemporary presence of actors that control single stages of the supply chain. Consequently, every single operator has its own objectives which can be considered intermediate because they don't coincide with the general objective of the major trade and economic efficiency of the management of the product and of the supply chain itself. The result is that the objectives of the actors at the different stages of the supply chain, from the production of the raw materials, through the processing and the distribution stages, are often not well co-ordinated owing to the attempt to try to satisfy the needs of every single phase of the supply chain or of the category of actor.

The OLPs supply chain can be "short" or "long" in relation to the number of actors responsible of the every single phase of the production process. Only the presence of the Consortia and Associations, by means of a co-ordination role, allow to overcome an individualistic logic towards a collective one. Therefore it is necessary, inside the supply chain, to attain a strong co-ordination between the phases of production, transformation and distribution, bypassing the individual utility logic based on a cost minimisation and profit maximisation at individual or supply chain stage level.

The co-ordination of the supply chain of the OLPs represents a central element to allow the creation of an added value to the product and its recognition by consumers. The code of practice, which stands at the basis of the definition of the characteristics of OLPs and of their area of production represents the first element of the action of co-ordination through the supply chain, influencing directly the strategies of the single actors involved, by setting the production method.

#### **Individual business decisions versus a collective strategy: the role of product specifications**

The definition of the specification of the product and of its quality by means of the code of practice is important in order to: a) avoid unfair and opportunistic behaviours by the actors, b) establish technical and geographical barriers and c) valorise OLPs because they allow a better characterisation of the product, easing its promotion.

Sometimes some producers put themselves on the limit of the rules imposed by the code of practice by adopting opportunistic behaviours which damage the image of the product. In the same way, the adoption of the PDO stimulates free-rider behaviours by those who produce without an origin label, near the typical production area, with similar names or by those who exploit the reputation of the production area as a way to attract the consumer trust. These free rider behaviours not only harm the product image, but can even compromise its future production.

The code of practice, by the selection of the characteristics of the product as a whole, influences, indirectly, the entire structure of the production costs (which includes costs of raw materials, of seasoning, of stocking, of sale by different channel...). The definition of the price will be influenced by the structure of the costs and the allocation of the product in the market will have to take this into account.

### **c) Marketing issues**

#### **Typical product attributes and related marketing strategies**

Typical products are linked to their area of origin for paedoclimatic, technical, organisational and cultural peculiarities. These elements can be individually or collectively exploited in the valorisation of a typical product. Finding out and enhancing the peculiar characteristics of the product is fundamental to implement an appealing strategy of communication to consumers. Nevertheless market requirements change over time and also OLPs cannot avoid some kind of adaptation to consumers needs not to be placed out of the market. OLP firms collectively need to explore strategies to continue with the product characteristics as well as introducing new product attributes.

Often, within the same OLP, market strategies are directed towards a segmentation that aims at the valorisation of the differences in the production process of the same OLP and their effects on the quality of the product. It is important to underline that the possibility of valorisation of these differences change according to the marketing channel. As a matter of fact it is easier to do so when the contact between seller and consumer is deeper as at boutique retailers, agro-tourism farms and product routes shops.

### **Distribution channels choice strategies and problems in the adaptation to chain requirements**

For most OLPs, short channels are better known because they have been commonly utilised for a long time and they are more familiar than with the modern distribution chains. The use of the modern distribution channel gives OLPs the opportunity to penetrate a wider market. It is not easy for OLP firms to sell to chain distributors as often it cannot be an individual exercise but firms need to get together and establish strategic planning, sometimes jointly with public institutions. Another problem lies in the standardisation of the product asked by the modern distribution which may also have negative implications in terms of loss of specificity of the product.

### **Promotion activities and brand creation: collective, distribution and individual brands**

Brands are one of the biggest assets that firms have on any activity. Brands are difficult to be implemented in the market and require large capital investment and medium to long run planning. Those individual efforts can be enhanced by collective brands, a common feature for many OLPs. Promotion activities require common decisions and good marketing plans.

A recent strategy adopted by multiple retailers is that of substituting the individual brand of a typical product producer by the retailer brand. The latter is added to the product origin label and highly increases the market power and image of the retailer in front the consumer.

### **Collective and interactive marketing**

Firms producing typical products are mainly SMEs. This often does not allow the implementation of traditional strategies both in terms of costs and of sufficient supply of the product to orientate consumer's demand. That is why collective marketing is suggested. Within this issue a special role is attributed to Consortia and Local Administrations.

Another relevant issue is related to interactive marketing. The necessity of a tight dual relationship between firms and consumers is based on the one side on the importance of the information of the consumer. So that he can attach value to the typical product and on the other side on the information producers should have about consumers expectations in order to meet them.

### **International commercial challenges**

The international market represents an important destination for many typical products. For more well-known products this has already been widely the case, but the international challenge is often considered not viable for small production scale OLPs. The commercialisation of a basket of OLPs linked to a certain territory and benefiting from its halo image effect could be sometimes a solution. The high costs of penetrating international markets are in some countries lowered by public intervention towards internationalisation of firms.

## **1.2.4 Governance issues**

We call "governance of the supply chain" the collective organisation of the OLP supply chains. This topic concerns the specific organisational design of OLP supply chains: the vertical co-ordination between the supply chains actors is piloted by a centre of operations, which may be an association or a firm (often a Consortium or a co-operative). The enterprises are free to participate or not and there is no hierarchical fiat.

The action of the governance of an OLP supply chain can be addressed towards two principal objectives:

- ?? The realisation of the product
- ?? The organisation of the supply chain

The realisation of the product is usually regulated by a code of practice which defines the process specifications and area of production. So the first governance actions, are often addressed towards the constitution of a code of practice, especially for new PDO products which need EU protection. After the creation of the code of practice products establish, in a more or less restrictive way, their production criteria. A later adjustment of the code of practice must not go beyond a certain limit, because their peculiar characteristics of the product could be lost.

The governance actions addressed towards the supply chain are necessary. In fact, actors at various phases of the supply chain, can have very different dimensions, big or small, and so, could have different objectives. Firms dimension and their production structure influence the acting possibility of the collective organism, such as Consortia, in the management of the entire supply chain. The Consortium, as a "catalyser", by means of vertical and horizontal co-ordination actions, succeed in lowering transaction costs and even in managing better products quality and the safety, by means of a traceability mechanism.

This issue is crucial for understanding OLP supply chains specificity. We must avoid descriptions that would not be comparable and look for a relevant theoretical framework in order to develop common methods for analysing case studies. This program is very ambitious and should be developed in a research program. At the present time, the WP2 team has identified some relevant issues, which are shared by all countries.

## **a) Link between OLPs and Economic theory**

The link between Economic theoretical models and actual markets is never easy to highlight and our team met difficulties to find a consensus on this point. Most of the group members agree that the neo-classical model is not relevant for analysing OLP supply chains. The New Institutional Economic theory looks much more adapted and its concepts have been already adopted by different teams. One way for justifying the choice among the economic theoretical models is to verify if the hypotheses of the neo-classical model [actors' atomicity, free entry, homogeneity of the good quality, perfect information, substantial rationality] are verified or not. This approach (proposed by Reviron, 2000) includes in one unique theoretical corpus the different microeconomic theories that the economists like to oppose: the neo-classical model and the different works that have been achieved during the 20<sup>th</sup> century for studying effects when one hypothesis is not verified. Concerning OLP supply chains, most of the hypothesis of the neo-classical model are not verified.

### **The hypothesis "homogeneity of the good quality" is not verified**

Products that are sold by the OLP supply chains are generally very differentiated products, which are competing with private brands or retailers labels or generic products. They are dedicated to a specific market segment, according to a marketing strategy. Upstream the supply chain, raw materials are naturally variable. One goal of the supply chain is to transform this "natural" variability into a constructed differentiation.

The effects of the relaxing of the good homogeneity quality has been studied by E. Chamberlin (1933), within the theory of the Monopolistic Competition. This theory influenced the modern marketing theory during the 40 s'. The missions of the OLP centre of command are directly linked to this differentiation strategy. The centre of command builds up a promise to the consumer. It fixes the marketing mix and determines the task distribution between the members concerning quality (according to the code of practice) and logistic. This marketing strategy, as in a firm, needs to fix volumes and intermediary prices in order to adjust the production to the planned sales.

The centre of command may be a firm (often a cooperative) or an association without commercial statutes. The benefits and limits of these two different organisations have been studied [Chappuis, 2002]. The main benefit of the association is the respect of the enterprises free entry within the OLP supply chain.

### **The hypothesis of "actors' atomicity" is often verified**

The OLP supply chains are characterised by a large number of producers and processors, whose size is often very small. The benefit of this organisational design is to delegate to a collective institution (the centre of command) different missions that small enterprises cannot afford. The history of different OLP supply chains highlights the role of the centre of command, when volumes increase, in order to switch from a "domestic" trust to an "industrial" trust [Torre & Chia, 2001 ; Chappuis, 2002]. This organisation limits concentration, by allowing many farmers, small scale "artisanal" enterprises and co-operatives to survive [Barjolle et Chappuis, 2000].

### **The hypothesis of "free entry" may be verified within the geographic area**

The free entry is automatically limited for OLP products according to the "origin" indication, which may be given only to the enterprises that are located in the geographic area. Within this area, barriers to entry depend of the organisational design of the supply chain :

- In some regions, the "origin" indication is given to any enterprise that is located in the area. There is no code of practice and no collective organisation.
- Some OLP supply chains are organised as a "club", whose members share a collective brand. The entry of new members needs the agreement of the present members and an entry fee may be asked.
- The PDO/PGI label, being a public good, guarantees free entry within the geographic area [Chappuis, 2002]. All enterprises that are located in the geographic area and respect the code of practice may use the appellation. In order to avoid market crisis, some temporary measures may be adopted.
- Some regional collective brands follow the same entry rules than the PDO.

Even in this case, as in the case of the code of practice, more or less restrictive, the problem of the organisation of the supply chain is related to the question on what is the right degree of freedom of the economical actors inside the collective actions. To this purpose, in order to maintain a right degree of tradition and typicality for an OLP, sometimes we can observe phenomena of enclosure at the entrance of the collective brand or organisation. This is identifiable as a real barrier to entry and it has the task to avoid that the market evolution and, in general, the socio-economic context can influence and change OLPs production and transformation, especially in the case of a niche for typical products.

The problem of free riders is an important issue when there is no barriers to entry in the supply chain (such as PDO/PGI products). In this case, it is possible for a few operators to benefit from the collective efforts without respecting the collective agreements or bear

the costs of the measures (i.e. collective promotion, quality improvement, management of volumes). Because they cannot be excluded from the benefit of the collective measures, a support from the State authority or of the Consortium itself, is crucial to impose the collective decision on the free riders and thus to make the collective action possible (Ostrom, 1990; Fischbacher, Gächter & Fehr, 2001). The conditions and the degree of State intervention in the private organisation of the supply chain is a very complex topic.

### **The hypothesis of "substantial rationality" is not verified**

All members agree that the actors' goals within a OLP supply chain are not only economic and even so the strategy is often directed according to a long term vision, where family and community interests are crucial. Farmers are particularly concerned. The Theory of "procedural rationality" was proposed by H. Simon (1976). Actors think of their past experiences and their anticipation concerning their future decisions, in a context of limited information. This characteristics of OLP supply chains incites to include in the research the sociological approach concerning the decision making on markets (Boltanski and Thevenot, 1987; Granovetter, 1994...). These specific goals lead to a very specific management of the supply chain management (see point 2.2).

### **The hypothesis of perfect information is not verified**

On all markets, sellers and buyers have to make their decisions with main uncertainties on quality, price range and future. Within the OLP supply chains (especially the PDO products), uncertainty on quality, because it is associated to a low tolerance to a quality defect, is a crucial issue. But, actors do not act as in an industrial organisation. They capitalise on "domestic" trust and loyalty that is based on long term relationships. Spot markets are not relevant.

The theoretical approach of O. Williamson (1975, 1985, 1996), which emphasises organisational answers to uncertainty on quality and on future has been often used for analysing PDO supply chains. But the governance structure on PDO supply chains are often different than those predicted. History and personal relationships lead to specific organisations. When volumes increase, the centre of command often looks for improving commercial relationships within the supply chain in order to lower opportunism and transaction costs. The negotiation of contract templates, which are substituted to non-written or bilateral contracts, is one of the most common decision.

### **b) A balance between cooperation and competition**

According to OLP characteristics, most of the economic theories seem limited by their inability to explain the role of specific market institutions and more generally the effects of collective organisation. The collective organisation of the OLP alliance leads to a very special balance between co-operation and competition (co-opetition). On one hand, the spirit of collaboration ease the trade and the decrease of the transaction costs but, on the other hand, a certain degree of competition atmosphere maintains the "good competitiveness" and stimulates the firms to offer the best, even in quality terms.

The Consortium, in these terms, will be fundamental in order to fight some unfair behaviour and free riders and on the other hand, will ease the collaboration between firms. As an intermediate organism, where all the forces converge, it will be the right intermediary among private actors, the firms and the public institutions. The institutions, that generally are the promoters of the rural policies, thanks to their direct contact with the Consortia, will be able to create and enact policies keeping with the productive OLPs realities.

The enterprises are allied in order to build up a common promise to the consumer and then to develop volumes and values on the market segment. They stay independent entities and keep technical and commercial responsibilities. The OLP supply chains do not have the objective of limiting emulation and avoiding competition between their members. But the individual action and responsibility is co-ordinated and controlled by the collective decisions and rules in order to access to the target markets and develop sales. At some points, one individual decision may be opposed if it is dangerous for the alliance.

The alliance has then to define very precisely which leeway is let to the actors, in order to preserve its strength and stability. The OLP supply chain builds a vertical co-ordination which replaces horizontal arrangements on the intermediary markets. The OLP partners are tempted by alternative trade solutions that may sound more profitable. Each OLP supply chain must define the individual leeway that is compatible with the collective organisation.

The OLP partners (farmers, product makers and traders) may choose to specialise in the OLP product or diversify (processing and selling both OLP products and non-OLP products; or processing and selling a product line including different OLP products). They may decide to sell their products via the OLP collective trade unit, if any, or to keep selling by their own on specific distribution channels (such as direct selling to consumers).

It is obvious that an organised system produces some advantages but also some disadvantages because maximising profits policies, resulting in a big production will not be permitted by the Consortium. The Consortium doesn't have a selling function as it has only the function of promoting the product, in order to protect the image from a distorted action caused by policies unsuitable to the valorisation of an OLP.

In the same way, the organisation, because of the levelling and control action towards firms, has a certain power even on the price, that can't go down or go up on a defined level, excluding the possibility of adopting aggressive sales strategies which can damage the image of the product towards the consumer.

Inside all the possible supply strategies, those defining a certain quantity is one of the most important. The role of the Consortium, establishing the quantities of the product, according to the dimension of the firms is fundamental. In fact, a large supply of the product can damage not only the producing firms, that would have to sell the product at a lower price, but even the collective image of the product that the Consortium, as a primary duty, has to protect. It is evident that the entire production, supply and market strategies, at the end, are a part of a general marketing action of collective type, centralised in the Consortium action on two issues: on one hand the promotion of the OLP product and, on the other hand the support of all the producing firms.

All WP2 group members didn't agree on the acceptability of the individual leeway. Some members estimate that these negative forces weaken the alliance. Other members consider that these individual strategies may give a better access to different market segments and distribution channels, may improve the product image in some cases, and then reinforce the OLP enterprises' collective strength.

On the theoretical point of view, the "co-opetition" issue is derived from the Theory of Games.

It analyses market positions where competitors may be partially allied in order to develop a market. It opens an interesting new approach, at the boarder of Economics and Management sciences.

### **c) The conditions of birth of the OLP supply chains**

The birth of an OLP supply chain is never easy and we know many case studies that should "crystallise" into an OLP supply chain but do not succeed. Main conditions seem to be fulfilled (product typicity and demand for the product) but the collective organisation is lacking. The birth of an OLP supply chain needs a lot of energy in order to encourage the actors to change their present commercial relationships and distribution channels. A crisis may be an efficient catalyser. Institutional support (often from the region) is often decisive to build up a project.

During the first years of life, OLP supply chains meet difficult youth problems, because they have to go through a learning process, in order to find solutions that are adapted to their technical and social characteristics. The local and regional authorities may play an important role at this stage of development. Its needs too a very specific management.

## **1.3. FURTHER RESEARCH**

### **1.3.1. Interdisciplinary research**

For many OLP products interdisciplinary research can contribute to an improvement of the quality definition. Still a large knowledge gap exists on the link between the natural characteristics of the production area and the technical and intrinsic quality of the product. Such research is important to collect arguments in defence of the specific quality of OLP's with respect to generic standard food products, arguments which are of particular importance in the WTO negotiations. If technological research may monitor the quality variability and analyse the factors which have the major impact on quality variability, market research may analyse the perception of consumers of the quality variability. This type of interdisciplinary research is highly relevant and useful for the debate among actors on the product specification of the OLP. The research may take the form of social action research, as this research methodology particularly adapts to assist economic actors in their struggle to define a product specification based on their different production techniques, which are often the result of centuries old traditions.

### **1.3.2. Marketing of OLPs**

As often the marketing is one of the weakest links in the OLP supply chains, more research is needed on the relationship between distribution channels and OLP producers. Contract conditions imposed by multiple retailers need to be investigated more thoroughly. Competition among multiples eager to differentiate their supply through the launching of private labels covering OLPs should receive more attention in next research programs. The question to be tackled is to which extent production and processing criteria of the multiples interfere with the code of practice of OLPs. The role of specialised gastronomy retailers in marketing OLPs needs to be analysed in order to estimate their potential market share in the next decades.

### 1.3.3. OLPs launching

The idea of the local area as a resource which can be constructed is widely accepted. Less is known about how OLPs may be launched and which conditions have to be satisfied in order to have success on the market. Although the factors which explain the success of OLP are fairly known through recent research, more needs to be investigated on the weight of these single factors in explaining success. Is social leadership the crucial factor, or is coordination among actors in the supply chain decisive? Important to this respect too is how local and hidden knowledge may be mobilised and which procedures are to be followed to formalise this knowledge.

### 1.3.4. Collaboration and competition

The collective nature of OLP chains leads to a special balance between cooperation and competition. This issue need to be explored more deeply using the latest outcomes of the Theory of Games. More empirical evidence of the prisoner's dilemma needs to be collected. The question is to which extent the positive externalities generated within the economic districts through cooperation can be internalised in the individual firm balance. Case studies of different typologies of OLPs have to carried out in order to define the individual leeway of actors. A special problem is the analysis of cases where firms are processing and/or selling both OLPs and non-OLPs. Is specialisation in OLPs necessary anyhow or does on certain conditions diversification reinforce the collective strength?

### 1.3.5. Learning process

Increasing emphasis in research has to be put on the issue of the generation of collective skills through the learning process. The changes in the distribution of knowledge among the actors of the supply chain are important is these may weaken or strengthen the chain. It is important in this respect to account for differences between Southern and Northern European countries, as in the latter countries there often is no collective culture capable of sustaining local initiatives. As in these parts of Europe often OLP initiatives have to build up from scratch, studies are necessary to analyse how local actors are able to construct social networks in their attempt to valorise local resources.

### 1.3.6. Neoclassical and other economic theories

Research of food markets along neoclassical lines shows that the liberalisation of trade may have under certain circumstances adverse effects for the quality of products and that the harm be greater than the drawbacks in terms of general welfare related to protectionism. There is need to investigate more closely these theoretical issues in order to fuel the international debate with scientific arguments for the protection of PDO and PGI denominations. Neo-institutional economic theories do have more explaining power than mere neo-classical analyses, but their hypotheses have to be tested through more empirical evidence. In this way a sound conceptual framework can be constructed through which SWOT analyses of OLP supply chains are more easy to carry out.

### 1.3.7. Efficiency studies

Often the objectives of the actors in OLP supply chains go beyond the goal of firm profit maximisation. SMEs involved in OLP chains do have a longer term perspective incorporating socio-cultural objectives in their strategy. An analysis of the socio-economic efficiency of the OLP supply chains in its widest sense have to be conducted, incorporating the effects on employment and environment in the production area.

### 1.3.8. Management organisational models

The specific role of co-operatives in OLP supply chains needs to be studied further. In many successful OLP supply chains co-operatives play a crucial role in processing and in marketing the product. The small scale of co-operatives seem to be highly relevant in explaining their success in OLP chains, as they channel the collective behaviour of local producers groups towards loyalty to the production techniques and mutual trust among the members.

### 1.3.9. Management and leadership issues

Issues such as the extent that management could negotiate effectively with retailers (especially the multiples) who can try to influence PDO product specifications and impose sales and production conditions on OLP producers, how management could improve the strategic position of OLP business through negotiation of cooperation between the collective OLP group and public institutions or how do management issues differ for industrial and artisan OLP products are worth mentioning.

## 1.4. POLICY RECOMMENDATIONS

Questions of the international legitimacy of OLPs in relation of the deterioration that those food products' quality might encounter in more liberalised international environments remain to be solved. Strict international policy controls might solve future potential problems. WTO discussions should have in mind those problems which are not only related to the origin of the product but the final quality that consumers are willing to accept and perceive.

The inclusion of national and European policies for protection and/or development of OLPs within the context of global policies should be analysed. Especial emphasis should be given to EU policies and the definition of regulation and genuine policy. Inconsistencies between competition policies, agricultural and rural policy, and consumption should be areas of research and policy interest.

The interaction between collective initiatives and public policies should generate new ideas and applications. This collective dynamics appear more important and necessary than legal protection, which is after all merely a framework for action.

## REFERENCES

- Albisu L. M., Corcoran K., 2002. Supply chains: marketing issues and OLP enterprises. Bologna.
- Barjolle D., Chappuis J.M., 2000. Transaction costs and artisanal food products. Proceedings of the International Society for New Institutional economics Conference. Tübingen
- Besch, M. Marketing Issues, 2002. Paris.
- Chappuis J.M., 2002. Les accords interprofessionnels dans les filières d'Appellation d'Origine Contrôlée (AOC) et la politique de concurrence. ETH, Ph.D. thesis to be defended in June.
- Chappuis J.M. and Révion S., 2002. Horizontal and vertical contractual arrangements through the supply chain. Bologna.
- Corcoran K., Wilson R., 2002. Scottish contribution to discussions at the Bologna Seminar.
- de Roest, K. Arfini, F., and Scaramuzzi, S., 2002. A common methodology for three case studies of processed pork supply chains in the provinces of Piacenza, Parma and the region of Tuscany. Bologna.
- Révion S., 2000. La diversité des systems de marché. Institut National Agronomique Paris-Grignon. Ph.D. thesis. February.
- Révion S., Chappuis J.M., 2002. OLP supply chains governance issues. Paris.
- Torré A., Chia E., 2001. Pilotage d'une AOC fondée sur la confiance, le cas de la production de fromage de Comté, Gérer et comprendre. Septembre.
- Trift, N. Qualification of the origin of bovine meat in Corsica through technical devices. Bologna, 2002.
- Scaramuzzi, S. 2002. WP2 Synthesis literature Review. Link between OLPs and Local production systems, Supply chain analysis. Paris, 2002. Sylvander, B. A methodology for assessing the success of Organic Marketing Initiatives in Europe – Some Factors of Success for Origin Labelled Products in Agri-Food Supply Chains in Europe.



## Part II

# Literature review WP 2

### Link between Origin Labelled Products and local production systems supply chain analysis

France	(INRA-UREQUA, Le Mans) (INRA-LRDE, Corte)
Germany	(TUM-PFM, Freising)
Italy	(Università di Parma, IEAF) (CRPA, Reggio Emilia) (Università di Firenze, DES)
Portugal	(UTAD-DES, Vila Real)
Spain	(DGA-SIA, Unidad di Economia, Zaragoza)
Switzerland	(ETHZ-IER, Lausanne)
United Kingdom	(University of Edinburgh - IERM)

