

Inter-Organizational Supporting Services Between Supermarket Chains and Small Producers of Fresh Product in Morocco

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Abstract

Marjane Holding, one of the great actors of Moroccan food retailing, developed supply channels. It enabled the support of small producers and contributed to the social and economic development of Moroccan farmers and stockbreeders. Our research is interested in exploring a new form of inter-organizational supporting services.

Introduction

In the last three decades many programs have been created in order to integrate the small producers from developing countries in the supply chain of modern retailing. This movement has been initiated after the evolution of modern trade. As a result, traditional trade has been reduced and might disappear in the future in the developing countries.

These programs address several commercial and institutional gaps which impede small producers to accede into major retailers supply chains. The gaps can be commercial or institutional, preventing small producers to reference their products. Besides, these programs strive for changing the way small producers manufacture and sell their products. The operational programs tend towards the elimination of logistical and infrastructural impediments, the improvement of market knowledge of small producers, and the promotion of support services and financial resources.

The supermarket chains are best placed to provide opportunities for the integration of small producers; this way, they will encourage a balanced socio-economic development. This can take place small producers to exploit opportunities for improving their production techniques, their bargaining power and their incomes. On another side, in an unstable commercial environment, retailers are seeking to secure their supplies, by opting for multiple agreements with suppliers in view of minimizing the risks of conflict that may occur.

Thus, both parties can benefit from such a relationship, because the retailers will receive a good product, of a desired quality at the right time and right price. Small producers, in addition to reference their products, will receive assistance to improve their production's standards.

The remainder of the paper is split into four parts: the context of study is presented in the next section, followed by an explanation of the research methodology, a presentation of the key findings, the conclusions and managerial implications.

Context of study

In Morocco, the liberalization of economy after 1984 has led to the modernization of trading with the emergence of new forms of distribution. However, it was necessary to wait until 1990 for the opening of the first supermarket chain.

The development of modern retailing was prompted by the many socio-economic changes experienced by the country. We are witnessing a shift in consumer preferences which accompanies the increased purchasing power of Moroccans. The upgrading of the economy and the signing of trade agreements with the European Union and the United States are two other reasons for initiating the change.

However, it is important to outline that the development of Moroccan supermarket chains does not coincide with the development of certain sectors such as the production lines of fresh produce. The fruit and vegetables and red meat sectors in Morocco are suffering from many institutional and organizational problems. The informal market and the quality standards of producers are two factors which create specific problems for the Moroccan supermarket chains. In order to solve these problems, the supermarkets are accessing traditional supply systems through intermediaries.

In this context Marjane Holding, one of the great actors of Moroccan food retailing, developed supply channels. For the retailer, the supply channels consist in «developing partnerships between one or more stores and producer groups whose main purpose is to agree on a common project that defines the area of production and the characteristics of the product (Lessassy, 2007)¹.

The creation of these of supply channels has eliminated role of the intermediaries and promoted fresh produce at the lowest prices. It also enabled the support of small producers and contributed to the social and economic development of Moroccan farmers and stockbreeders. Moreover, supply channels ensure good production practices, traceability, quality and food safety.

The managers of Marjane Holding declared that by opting for the construction of supply chains, or what they call "trade channels", Marjane helps farmers and stockbreeders to restructure of their activities. Thus, by encouraging small producers to join them into cooperatives or associations, Marjane improves the communication with the suppliers of fresh products. For this, Marjane Holding has charged a team from the purchasing department with the mission to establish direct relationships with small producers of fresh produce. Using this direct communication channel, the producers will be able to respect the standards of specifications prescribes by this retailer and to better organize their activity.

In this context, Marjane Holding established a platform for centralizing purchases of fruits and vegetables. At the end of March 2007, 90% of supplies fruit and 50% of supplies vegetables, grouped at the platform of centralization, are provided by small producers and their packaging stations. This approach ensures the diversification of product lines offered by the supermarkets, which are characterized by superior quality and competitive prices.

¹ Lessassy L. (2007). Pratiques des filières en grande distribution : une analyse par la théorie des coûts de transaction, *Décisions Marketing*, 46, 77-89

For purchasing the red meat Marjane Holding followed the same approach by establishing contacts with breeders and breed organizations scattered on Moroccan territory. The meat chosen must meet the existing requirements of quality and health. According to customers' needs for the red meat, many tests developed in store have been introduced during the procurement process.

The relationship between retailers and suppliers was often characterized by conflict relations in developed countries. Nowadays, both parties become increasingly aware of the necessity to establish a cooperative relationship. This trend explains the appearance of several studies addressing this topic. However, after analyzing the project of this Moroccan retailer, we identified the originality of this study in the aspects surrounding inter-organizational support provided by supermarkets to small producers. The main research questions are therefore:

1. What are the managerial and relational procedures required to develop these relationships?
2. What are the main elements of exchange that results from the adoption of these procedures?

In order to investigate the topic of supporting services, in management we use especially the concepts of coaching, counseling or consulting². In our present research we are interested in a new form of inter-organizational supporting services, characterized by long-term collaborative relationships between retailers and suppliers. The theory of justice represents a theoretical background that can be applied for understanding the aspects governing the retailer-supplier relationship, first, to identify good practices undertaken by the retailer and, second, to explain whether the retailer is abusing its power over suppliers (Fearne *et al*, 2003)³. Fearne *et al* (2003) report that small producers are the first to profit from the good practices of retailers insofar they promote for them the competitive business environment and give them the confidence to invest in the future. Our research attempts to identify if these supporting relationships ensure fairness to small producers, and to analyze the characteristics of the relationship in order to evaluate the quality of inter-organizational exchange.

Methodology survey

For our empirical research, we opted for a case study approach; this methodology was already tested for the study of retailing channels. The data collection involves both parties: the Moroccan retailer that support small producers and the suppliers who are small producers of fruits and vegetables or red meat. Using direct observation we were able to identify and collect the necessary information for this study. Additional primary data has been collected through 18 interviews with people directly involved in the trade channel (members of the retailer's trade team, and small suppliers), as well as through consulting of internal documents of the retailer organization.

Results

The analysis of the data is in two parts. The first defines inter-organizational supporting services. The second evaluates the quality of inter-organizational exchange.

² Ardoino, J. (2000). De l'accompagnement en tant que paradigme, *Analyses de pratiques de formation*, 40.

³ Fearne A., Duffy R. and Hornibrook S. (2003). Measuring distributive and procedural justice: An exploratory investigation of the fairness of retailer-supplier relationships in the UK food industry », *British Food Journal*, 105, 682-694.

Inter-organizational supporting services:

Commercial support:

This is the first type of support identified during the analysis of collected data. Commercial support is related to different stages in the establishment of relationships between distributors and suppliers. We have divided the establishment of a relationship (between retailer and supplier) into three stages: the pre-contract stage, the contract signing stage and the contract implementation stage.

The pre-contract stage:

The retailer's managers consider the commercialization of small producers' products, especially those located in the hinterland, as an important support measure. Indeed, the teams responsible for carrying out the "trade sector" project travel across all regions in search of new suppliers to convince and encourage them to market their products through a new distribution channel: modern retailing. Why use the word convince? The retailer's team has to cope with some reluctance on the part of small producers, who are afraid to launch into that adventure, a reticence arising from the small producer's ignorance. So, in order to establish the "trade sector" project, they collaborate with local public organizations (Chamber of Agriculture, stockbreeders associations ...) so as to educate small farmers and explain to them the value of listing products at supermarkets.

The contract signing stage:

Commercial support takes the form of privileges granted by the distributor to his suppliers in fresh produce (especially small producers). By signing with them what is called 'a commercial partnership contract', the latter are exempt from slotting fees and back-end rebate.

The contract implementation stage:

The retailer gives his suppliers feed-back about the products characteristics in order to adapt them according to the final customer's requirements and also to improve the quality of their output.

Organizational support:

This type of support can be divided into three dimensions: the organizational dimension, the technical dimension, and the administrative dimension.

Organizational dimension:

The retailer encourages and incites small producers to form cooperatives or associations, and explains to them what the point of that initiative is. It leads to economies of scale at several production stages.

Regarding the production of red meat, these economies are linked to cattle breeding, healthcare expenditures, and expenses related to the hygiene of the herds. As for the production of fruit and vegetables, they have to do with the operations of sorting and selecting the agricultural production.

Regrouping fresh produce producers will enable them to meet retailers' orders. These become all the more sizeable as the retailer manages to expand.

The retailer also explains to his new suppliers the procedures they will have to follow. These are related to the organization of the retailer's purchasing process, as well as to other procedures connected with products taxation. The products to be delivered have to pass through wholesale markets and slaughterhouses in order to pay municipal uniform rates (i.e. local taxes).

Administrative dimension:

The retailer negotiates with the public authorities to follow through the procedures necessary to market small producers' products. These measures are required by the government, specifically as regards the commercialization of meat products. In Morocco, all commercialized red meat must pass through municipal slaughterhouses, where health-services perform a veterinary check. Access to these slaughterhouses is restricted. It is compulsory to have what is called a 'butcher card'. The retailer helps his suppliers by going through complicated steps in order to be entitled to this card.

Technical dimension:

The retailer defines the specifications and the suppliers take whatever time they need to get ready with the wherewithal needed to meet his requirements.

Small producers declare that these requirements act as service support measures because, in so far as they are affordable, they feel incited to improve their products. Despite the delay caused by the required preparation, the retailer confirms his willingness to support producers by granting them the time they need.

The quality of exchange relationships:

In the second part, our study aims to assess the quality of inter-organizational exchange. The theory of justice provides the theoretical background necessary to understand aspects governing the retailer-supplier relationship. Inter-organisational theorists refer to two types of justice: distributive justice and procedural justice.

In the context of inter-organisational exchange, distributive justice deals with how the profits are shared and how the benefits and burdens are divided or allocated between two parties (Kumar 1996, Hertel, Aarts and Zeelenberg, 2002)⁵. The distributive justice exists when the

⁴ Kumar, N. 1996. The power of trust in manufacturer-retailer relationships. *Harvard Business review*, Nov- Dec.

more powerful partner realizes that they have some responsibility for their partner's profitability (Kumar, 1996).

The concept of procedural justice is concerned with perceived fairness of procedures used in making decisions. In terms of exchange relationships, procedural justice describes the fairness of the means used to determine the outcomes in the relationship (Kumar, 1996). Kumar (1996) states that six principles can be used to determine whether a relationship is procedurally just. These are bilateral communication, impartiality, refutability, explanation, familiarity and courtesy.

As defined by Kumar (1996), the findings of the interviews are presented in aggregate for distributive justice and each dimension of procedural justice.

Distributive justice:

The main objective of the 'trade sector' project is initiated by the retailer and aims to reduce transaction costs by eliminating intermediaries. Thus, both retailer and fresh produce suppliers can make greater profits.

The retailer automatically rewards the effort made by suppliers to ensure the good quality he requires of them. This reward is particularly attractive to small producers as it ensures they get a higher margin compared to market prices. This margin has already been predefined by the retailer and his small-size suppliers.

Among his fruits and vegetables suppliers, the retailer lists export groups that do not enjoy the same privilege. Their price offer must be lower or equal to market prices. When comparing the functioning of agricultural products supply chains as implemented by French distributors (such as Carrefour and Casino) and those adopted by Marjane Holding, it is worth clarifying the concepts of guaranteed minimum price and market price.

French retailers pay their 'supplier chains' a minimum price, which is the fair value of the product, and they commit themselves to subsequently reward their quality efforts and the added value that corresponds to price fluctuations on the market (Lessassy, 2007).

This guaranteed minimum price, which the distributor finds it difficult to abide by, thus becomes a source of dispute when the market price is lower than the guaranteed minimum price. In most cases, it harms his competitiveness compared to his competitors', when the latter get their supplies from the market.

Our case study permits us to conclude that distributive justice is achieved, as is proven so by what is actually happening in the field. The retailer, who has the upper hand in the relationship, generates profits for his 'small producers' suppliers.

Procedural justice:

Should the supplier fail to deliver the orders placed by the retailer, the sanctions provided in the contract are not applied literally when failure results from lack of the necessary wherewithal.

5 Hertel, G., Aarts, H. And Zeelenberg, M. (2002). What do you think is fair ? Effects of in-group norms and outcome control on fairness judgements, *European Journal of Social Psychology*, 58, 327- 341.

These sanctions are applied in very rare cases, namely, for example, when a supplier evinces opportunistic behavior, likely to jeopardize the promotional campaign he has committed himself to. The supplier might stop providing the retailer because he has opted to sell his products on the marketplace instead, since it enables him to fix more attractive prices.

Suppliers of fresh produce can refuse to participate in promotion campaigns; the retailer proposes but not obliges them to participate and this in no way affects the quality of the relationship between the retailer and his suppliers. Should all, or the greater part, of the goods not meet the required quality, the retailer will sanction the supplier by returning them.

Regarding supply planning, the retailer provides an estimated schedule of 15 days in advance; the orders actually placed can depart by about 20% (give or take a little) from what has been agreed on this schedule. When a retailer returns their merchandise after ordering them, suppliers complain about unfair practices on his part. Marjane Holding managers account for this by the fact that the purchaser's managers place orders with suppliers before receiving orders from stores.

Suppliers require a long-term scheduling visibility and a more effective commitment by the retailer. The transaction process lacks in formality, since there is no written trace of the way operations progress.

As regards terms of payment, the retailer pays his suppliers 15 days after receiving the ordered deliveries. Small producers who have limited financial resources might become cash-strapped and thereafter experience difficulties to meet their daily needs; they ask the retailer to be paid in advance. This still is a bone of contention between the two concerned parties.

Thus, it has been noticed that the retailer abuses his power through his decision-making procedures. To achieve greater fairness, it will be necessary to improve some of the aspects that characterize the relationships governing both parties.

Conclusion:

Despite many real challenges, we conclude that the relations linking the retailer (who has been the object of our study) and its suppliers of fresh produce can be classified as a cooperative relationship.

Our research has demonstrated that both parties are gaining from this cooperative relationship. Small producers are often faced to their traditional customers' solvency issues. Modern retailing provides a safe outlet for their products. Customers' solvency, regularity of orders and large quantities, these are the main features guaranteeing suppliers' interests are protected.

The retailer had difficulties setting a diversified mix to its customers. For example, in the case of fruit and vegetables supplies, export groups do not give priority to modern retailing, because the bulk of their sales are made for exports, their productions are designed to meet the needs of the export market, which requires only a few specific types of products.

Concerning the supply of red meat, the retailer seeks to stand out from competitors by emphasizing its supply chains and what they warrant: guaranteed quality and traceability.

Small producers who have opted for Marjane Holding as their new retailing channel hope that the retailer develops a support approach capable of enhancing the value of their products on his shelf-space.

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