Relationships between producer and food retailer: Contractualisations, margin policies and product enhancement in the fishing sector:

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Abstract

New forms of coordinations adapted to competition changes and new market conditions have recently emerged within the fisheries commercial channel. They redistribute the value added between the various actors and also bear significant consequences on fishing practices and resource exploitation. Two main reasons have led to these restructurings :

- the terms of the contract and the nature of the transaction costs;
- the strategic competition of food retailers which defines the forms of organisation of the seafood sector from a partnership having various degrees of commitment with the upstream actors to the upstream vertical integration.

This study presents first of new involvement of the retailing industry in the fishing sector. It based its conclusions on two series of qualitative surveys jointly conducted by retail chains.

- The aim of the first qualitative survey, conducted in national and regional purchase centrals, was to identify and understand the procurement mechanisms applied by retail chains to seafoods and the marketing policies implemented and applied to their members.
- The second qualitative survey involved retail stores and tried to match the marketing mix of non-industrial fisheries produce with retail store commercial applications.

This first part, this paper describes the retailer structure and strategies in terms of market positioning. The second part presents the operational and commercial marketing impact according to brand-name in the general retail industry. Lastly, the third part defines a typology of the contracts and partnerships between the channel actors.

Key-words : Contractualisation, margins, convention, marketing strategies, market surveys

Introduction

Since 1990, the French general retail industry has undergone total upheaval, affecting its strategies and marketing policies alike. Indeed, the brand-name concentrations (only five groups which now control the entire farm-&-food market with 95% market share) has redefined the strategic approaches.
Considering the positions taken by the various retailers, the French retail system was atypical by comparison with other countries worldwide, having, until 1996, favoured hypermarket-type stores, Presently, retailers are now focusing more on a model of small supermarkets established in fast-expanding or concentrated urban areas[1] (Gouin, de Carné, 2001). This model is focussed on international system.

The international classification of food retailers ranks two French retailer groups among the first five : Carrefour at the second rank and Intermarché at the fifth rank (including their food processing industry investments).
Retailer groups have taken possession of the seafood sector by widening their product offer and by applying a more active brand-name policy.
In factual terms, the French retailers that held 35 percent of the seafood market share in 1990, including 65 percent in specialised retail stores, now represent more than 65 percent of the national offer.
During the same period and especially in 1993-1994, the fishing industry suffered an unprecedented economic crisis resulting from:

- stock dwindling and price reductions,
- evolution of demand,
- the development of new marketing circuits.

The fishing industry therefore has sought to better adapt its supply to demand, through seafood products valorisation. This valorisation is focussed on intrinsic (quality, taste, texture) and extrinsic (packaging, technical and marketing practices) policies
This situation underlines the question of the adequation of upstream/downstream strategies and of the contractual organisation of the channel, i.e., procurement, quality and prices. The increasing demand of the central purchase of retailer impose new constraints to the supply of the fishermen.
This analysis of this problem was based on four quantitative and qualitative surveys conducted over a period of four years (1998-2002) along the full length of the English Channel's French shoreline and more particularly in Brittany (the number one fishing region of France) involving :

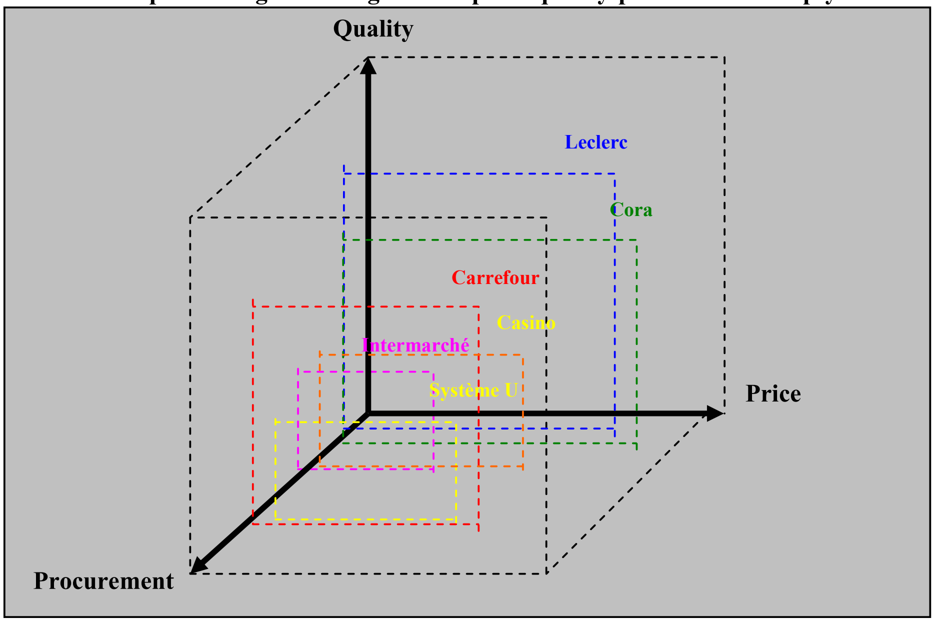
- 245 fishing Ship owners;
- 104 hyper and supermarkets.

This first part, this paper describes the retailer structure and strategies in terms of market positioning. The second part presents the operational and commercial marketing impact according to brand-name in the general retail industry. Lastly, the third part defines a typology of the contracts and partnerships between the channel actors.

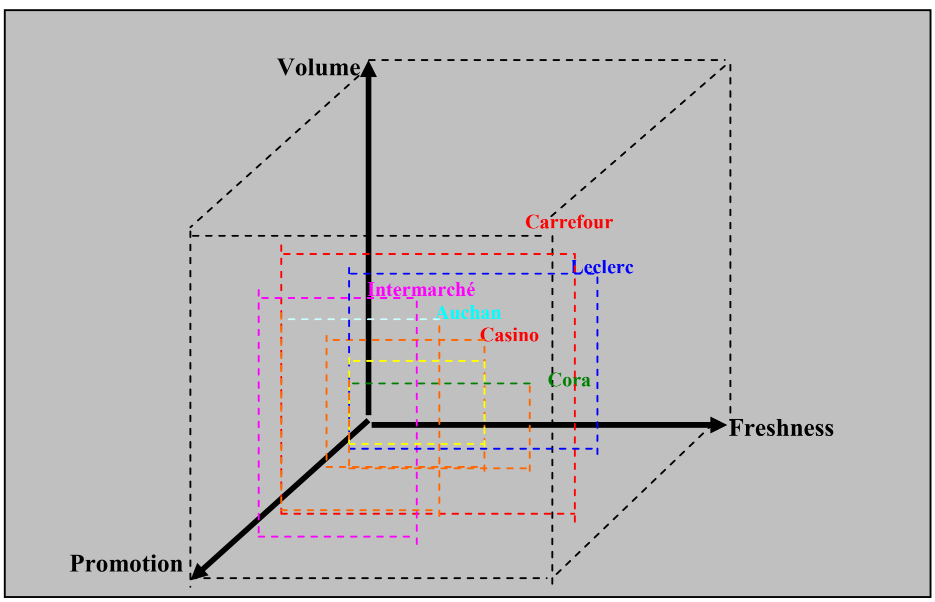
[1] the rationale for this choice results from the Law Raffarin of July 1996 which regulates large- and medium-area store implantations. Stores exceeding 300 m² have to be approved by the local commercial development committee (Commission Départementale d'Equipement Commercial,(CDEC). Hypermarkets exceeding 6000 m² have to be subjected to public inquiry before planning. This explains why main retailers are still favouring the development of small supermarkets under 300 sq m because they do not need CDEC approval.

I. T**he retailer structure and strategies in terms of market positioning**
Overall, the seafood marketing and commercial policies implemented by general retail stores are heterogeneous. Depending whether the *price-quality-procurement* (graph 1) or the *volume-freshness-promotion* (graph 2) triptych is chosen, retailers take different positions.

Graph 1 : Retailer positioning according to the « price-quality-procurement» triptych



Graph 2 : Retailer positioning according to the « Volume-freshness-promotion » triptych



Three groups can be distinguished according to their general seafood policies:

- Group 1 favours the "price-quality" policy, as Intermarché.
- Group 2 favours the "volume-promotion" policy, as Casino, Carrefour and Système U stores.
- Group 3 favours the "quality but high price" policy as Leclerc.

II. Operational marketing impact on fishing

21- The surveys

211- The sample

The data on which this analysis was based were collected during four qualitative as well as quantitative surveys conducted over a four-year period (1998-2002) along the entire French coastline of the English Channel, and more specifically in Brittany (France's number one fishing region) in 104 large- and medium-area retail stores (LMAS).

Two types of surveys were conducted, beginning with a qualitative one using the leading interview method, in the various purchase centrals of French retail chains: Carrefour, Intermarché, Leclerc, Casino and Cora. That survey was then supplemented with a study of end-consumer retail prices applied in LMAS in Brittany. Seventy-three (73) seafood buyers from all retailers were interviewed over a five-week period. Brittany was chosen for several reasons. Firstly, retailers Leclerc, Intermarché and Système U are strongly anchored there. Secondly, their seafood consumption index is above the national average (106 vs 96 in the Paris region). Lastly, its coastal situation favours procurement from direct suppliers. So the proportion of purchase from centrals in relation to direct purchase was all the more interesting to analyse.

212- The methods

Large- and medium-area store managers and executives were interviewed using two types of questionnaires. A permanent questionnaire involved the procurement methods applying to the various species : origins, fishing techniques, relationship with the fishing industry, quality criteria on purchase, logistics. And then, that survey explored produce availability to consumers: delivery, number of items and promotional techniques. Lastly, the third part of the questionnaire addressed consumer communications criteria and pricing. These data were supplemented by a weekly questionnaire that permitted individual follow-up of store procurement evolution. Prices, volumes and profit margins were documented (e.g., 21,900 pricing items). Some questions were also aimed at knowing whether products where being enhanced, if they came from the central, from direct suppliers or from imports. Each person was required to fill out that questionnaire over five weeks.

213- Selection of subject species

That selection was designed to reveal the strategies applied by retailers to such specific products as those derived from fishing.

The study involved 10 species most of which are considered as upmarket. It is difficult, in more common species, to identify the procurement policy of a store because these products are often used as attractive cost-price items. They are sold in large volumes at promotional prices with very little profit to the stores. With more expensive species, the procurement policy characterises each retailer; just as promotional methods and the ways of highlighting these products on display stalls. Conventionally fished, sole, monkfish and red gurnet appeared interesting from a local procurement standpoint. Sea bream and sea bass appeared as a good choice for representing products from fish-farming and wildlife fishing. Then more common, industrially fished bottom species completed the study. Halibut, subject of worldwide exchanges, was also retained. So, the ten species that formed the basis of this survey were : fish-farmed sea bass, wild sea bass, fish-farmed sea bream, wild sea bream, Emperor, Monkfish, Red Gurnet, Sabre, Sole.

22-Analysis of retailer strategies

The analysis was based on three main axes corresponding to the three most relevant concerns of seafood marketing: procurement, pricing and quality.

The centralised or decentralised status of a large- and medium-area stores, which came out as the factor explaining most of the above variations. That factor can sometimes have less weight if the integrated vs independent criterion is ignored.

221-The main types of procurement

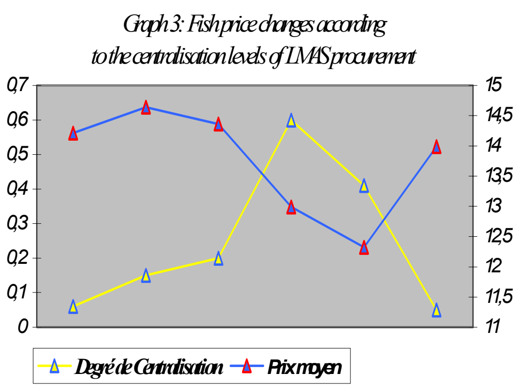
The various retailers can be classified according to two main criteria : channel integration or centralisation levels.
The latter criterion underlines the importance of seafood product procurement through centrals in the various retailers.
Certain retailers have specific procurement strategies for seafood products.
For instance, Casino mostly operate as a platform and through a purchase central for their procurement. That retailer appears to be highly decentralised with regard to seafood procurement.
They can therefore be classified according to that centralisation and rated for their procurement strategies (Jais-Nielsen, Lipchitz 2001). The scores obtained in consideration of the procurement peculiarities of large- and medium-area stores as a result from seafood specificities are as follows :

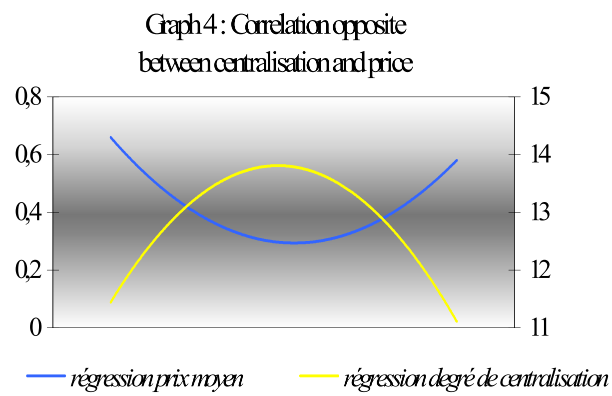
Table 1 : Centralisation level of general retailers

Main French retailers	Centralisation level
Super U	**0,52**
Casino	**0,2**
Leclerc	**0,06**
Carrefour	**0,6**
Intermarché	**0,41**
Cora	**0,05**

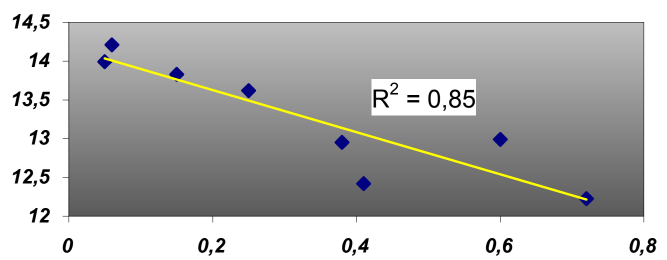
222- Pricing, profit margins and promotions.

Statistical analysis revealed a strong correlation between the concentration levels (Jais-Nielsen, Lipchitz 2001) and the pricing and margin policies of the retailers *(graphs 3 and 4)*.
The correlation coefficient of - 0.8 or even -0.85 (hors ITM) for pricing reflects a high negative dependency between the prices recorded on the stalls of LMAS and their procurement policies *(graph 5)*. The greater the centralised purchase of a retailer, the lower the retail prices.





Graphique 5 : Curve of regression between centralisation enad price



Régression : $Px_i^* = -2.3\ Ic + 14.18$

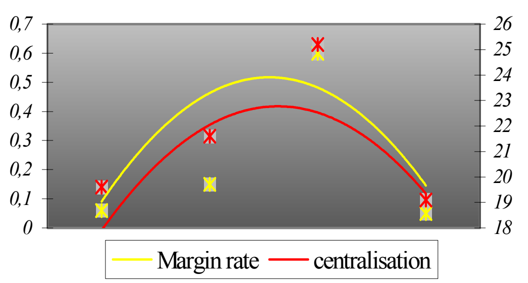
Likewise, the correlation coefficient was particularly high (0.92 : *graphs 6 and 7)* when testing the centralised or decentralised status in relation to the profit margins of LMAS. It apprears that not only centralised chains are able to apply low retail prices but they also enjoy higher profit margins than decentralised retailers.

Régression : $Fp_i^* = 1.38\ Ic^{0.49}$

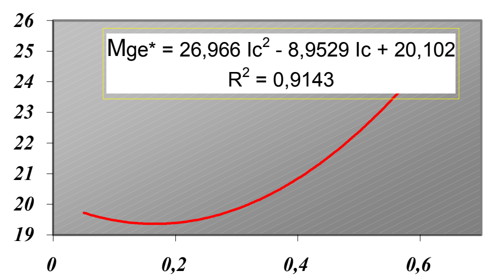
However, Intermaché sticks out as the only retailer integrated in the fishing industry channel (low prices and low profit).

Lastly, centralised retailers can apply more aggressive communications and marketing policies to seafood products, as they are scheduled by the centrals (Gouin, Boude, Charles, 2002). So the adequation is almost perfect between the centralisation level and the frequency of promotional actions (0.91).

Graphique 6: Corrélation entre centralisation et taux de marge des GMS



Graphique 7: Regression beteween concentration margin rate

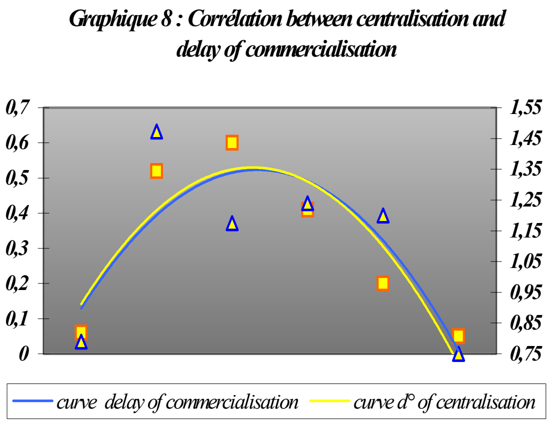


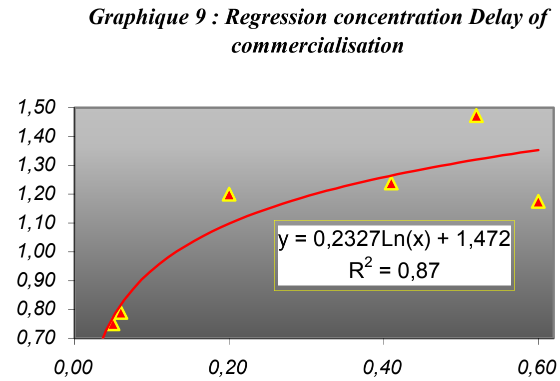
Régression : $Mge^* = 26.96\ Ic^2 - 0.95\ Ic + 20.1$

223. Quality

Centralisation induces longer delivery times. Leclerc, with their decentralisation policy, are the shortest, whereas Carrefour, Intermarché and Système U have longer delivery times. But all do not operate in the same way.

Some buyers purchase whole fish directly from the auction place, for which a purchasing license is required. Fish control is then very accurate and buyers are well aware of the quality of their purchase. By buying products at 6:00 am and selling them at 9:00, they are able to reduce delivery and display times considerably. Some buyers found another way to assess the quality of products without the hassle of applying for a buying license. They attend auctions and instruct the wholesale fishmongers who are buying on their behalf. Among all the stores we interviewed, only a handfull of independent stores held a buying license (Leclerc and Intermarché stores). That accounts for the clear correlation noted between procurement methods and landing-display intervals *(graphs 8 and 9)*.



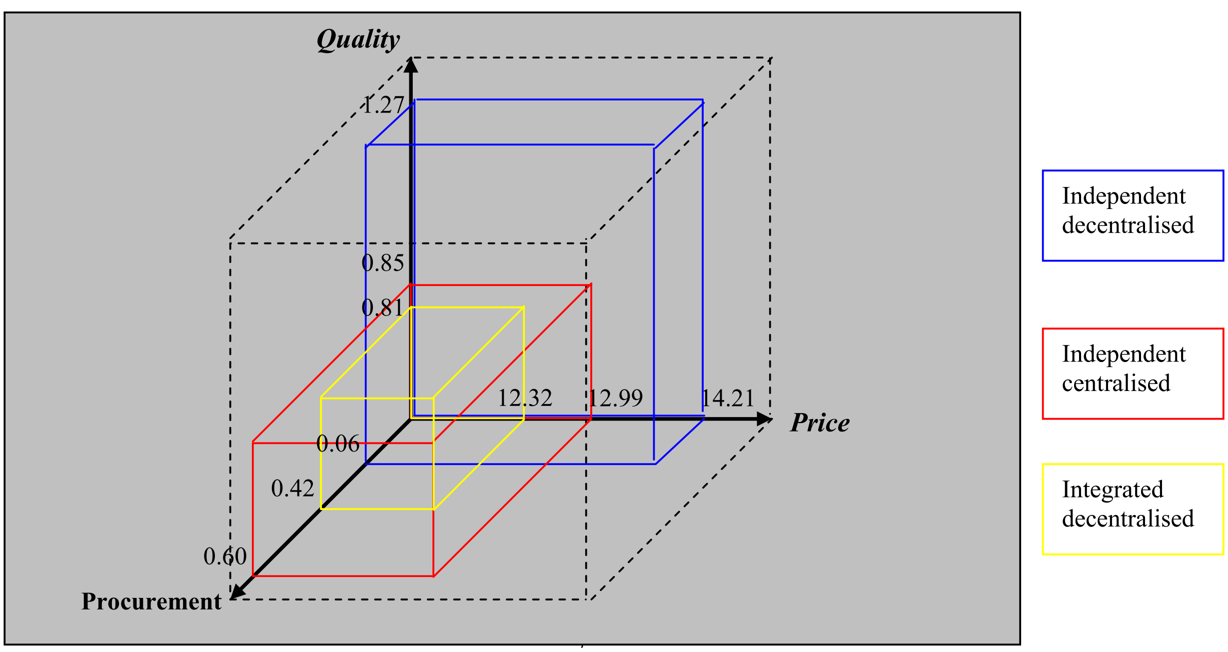


Régression : $D_i^* = 0.23 \text{ Ln(Ic)} + 1.172$

The various surveys also revealed differences in approaches to quality. Some retailers have developed their own Distributor's Brands and/or established partnerships with producers, through the co-signature of charters or the creation of labelled standards (Charles, Boude, 2001).
Only the independent retailers pledged to communicate on fresh product distributor's brand names : Intermarché with Pétrel, Odyssée and Gulf Stream, Leclerc with Amiral de Bretagne. Intermarché, however (integrated) use a strategy of independent, powerful brands according to product segments.
Nonetheless, a clear trend can be identified: the source or control of seafood quality specifications depend on the level of centralisation (Gouin, Boude, Charles, 2003).
In contrast, decentralised retailers favour high quality, strongly typed labelled products or collective brands developed by local producers (Charles, 2001).
However, particular purchase behaviours may appear according to the distance between the store and the coastline (Charles, Paquotte, 1999). A more quality-oriented policy must be applied by stores that are close to the coast.

224-Triptych : pricing-quality-procurement

Graph 10 relates the various strategic positions held by French retailers according to the "pricing-quality-procurement" triptych.



Graph 10 : Relative weight of the various transaction components on the seafood market according to retailers' organisational strategies.

In the pricing axis reflects the average retail prices applied by LMAS during the subject period. The further from the origin, the higher the prices. The quality axis reflects the quest for better intrinsic quality of products, through freshness and quick display for sale after landing. The further from the origin, the better the index, hence quality. Lastly, the procurement axis reflects the level of procurement centralisation. The further from the origin, the more centralised is procurement.

- Those results show that decentralised, independent retailers favour the quality but high-pricing.
- Independent but centralised names favour integration with a powerful brand-name policy (low-price and medium and low quality).
- Lastly, integrated centralised favour choice, medium quality and competitive price.

III-Contract and partnership typology between the fishing channel actors

Considering all the surveys and analyses conducted on valorisation approaches in the fishing industry, either upstream at the producer level (Charles 2001) or downstream (Gouin, Charles, Boude, 2002), it is now possible to define a typology that takes into account the strategies of the various actors, their primary determinants in transactions, and thus highlighting the types of contracts and partnership arrangements (Gouin, Charles, Boude, 2004). The latter are bound to develop in future.
Indeed, *graph 11* provides a synopsis of contractual relationships between the various actors of the fishing channel. Lines indicates the type of approach and the characteristics of contracts according to the initiating actor.

- When the contractual approach is initiated by fishermen, there is a true determination to develop a quality policy based on the specific or improved offer. The whole approach is based on the intrinsic quality of a product as the only source of added value. The typicallity of the profession seems to be the main basis to justify high-price seafood products (selective pricing). Fishermen organise themselves by promoting the origins and peculiarities of their craft, as warranting extra-freshness and top quality. Such is the case with the « ligneurs de la pointe Bretagne » and « Bretagne Qualité Mer ». Products from that source are preferentially displayed on decentralised stores such as Leclerc or Cora or alternatively in specialised stores like fishmongers.

- When there are bilateral, contractual relationships between fishermen and distributors, the induces a "quality charter"-type targeted offer or a more basic offer of reference. Such an approach is mainly initiated by centralised, affiliated names. He is based on a mass strategy positioning on a market price. By resorting to the "quality-charter", retailers can guarantee product quality and traceability. They are thus in a position to better respond to their local customers' expectations with the targeted offer while ensuring at the same time regular and well-organised procurement. Carrefour and with their « Filière Qualité », Casino with their approach to quality « Terre et Saveurs », Cora with their « Engagement dès l'Origine » have become standards of reference for seafood products. That bilateral relationship approach also applies to an offer of reference relaying a more on a basic quality. It enables retailers, the centralised ones in particular, to extend their basic product offer to a clientele more concerned with prices, attraction prices and promotions in particular.

- When distributors are the initiators of the contractual approach, two situations are to be considered : a reference offer or a targeted offer. With a reference offer, distributors will favour a low-price policy (insertion prices) on easy-to-cook and often basic species. A more targeted approach can also be taken by some retailers. Such is the case with Intermarché and Leclerc who have initiated a true "dedicated brand" approach at market price or at low price. The distributors' aim is to gain customers loyalty. Such is the case with Intermarché and their Pétrel, Odyssée and Gulf Stream brands, and with Leclerc and Amiral de Bretagne.

Graph 11 Typology of contracts and partnership relations between the fishing industry actors in resepect of valorisation efforts

Action/effort initiator	*Type of quality*	**Type of offer**	*Marketing location*	*Contract location and type*	*Fish quality*	*Valoristion concept*	**Pricing policy**	*Com. actor.*
Fishermen	*Higher quality (LPB, BQM)*	***Specific offer***	*Specialised stores/shops NSRS independent decentralised (Leclerc)*	Explicit pre-set Auction – non-auction	Extra Typical Top of range	*Typical craft*	High exclusion prices	Fishermen
Fishermen	*Quality reference Fish from Brittany*	***Improved offer***	NSRS Decentralised (Leclerc, Cora)	Auction/Wholesaler Contrat	Average	Production process	Average market price +	NSRS
Fishermen/ distributors	*"Quality charter"*	***Targeted offer***	NSRS Integrated, centralised Carrefour, Casino,	Auction Wholesaler Distributor	Average to higher	*Process Production Distributor qualification*	Market price +	NSRS
Fishermen/ distributors	*Basic quality*	***Reference offer***	NSRS centralised	Auction/Wholesaler/Distributor	Low range	Selection Export E.A.B	Market price - Insertion price (appeal)	NSRS
Distributor	*Development of own brands*	***Reference offer***	ITM Independent centralised	Integrated	*Low range*	Expost	*Standard market price*	ITM
Distributor	*Development of own brands*	***Targeted offer***	- Gulf Stream - Petrel - Odyssée	Non-auction Direct	*Low range to average +*	Production process	Insertion to market price +	ITM

NSRS : Non specialised retail stores
LMAS : Large- and medium-area stores
ITM : InterMarché

CONCLUSION

Analysing procurement policies and the various criteria which make up a marketing and commercial policy (freshness, pricing, promotions) revealed the great heterogeneity of retailers, depending on whether they are integrated, affiliated or independent, centralised or decentralised.
Depending on the policies adopted, priority is given :

- either to the quality/high price pair,
- or to a dedicated brand policy based on the low-price/medium-or-poor quality pair,
- or to the medium/competitive price pair.

The lower the price-quality pair, the larger and more regular procurement will be targeted. The higher the price-quality pair, the smaller procurement quantities will be targeted. But in that case quality levels are difficult to maintain from the fishermen or auction places. Such a strategy often involves high value, scarce species
The quantitative increase in procurement needs makes it difficult to follow those policies in the long-term. The reason for that is the existence of a real coordination problem between the actors of the channel, detrimental to the development of value added for coastal fisheries. That is mainly due to the divergence of interest between upstream and downstream actors. Fishermen seek the highest possible prices for unprocessed raw material rather than their integration into the organised channel through contracts with their various partners. But consumer demand is increasingly turning to processed products with value added.
To avoid such drawbacks, certain trends should be enhanced :

- failing an agreement between upstream and downstream economic agents, purchase central standards should apply to fishermen. Only those who adapt may benefit from that demand, although there is no guarantee that they will benefit as much as expected. The quality assurance approaches taken by fishermen shall be either adaptable or negotiable.
- The need for traceability and the demand for quality should entail, through precise specifications, in-depth changes in boat design and fishing and on-board processing techniques. This implies that major adaptation costs be borne.
- Procurement needs and financial profitability should lead actors towards seeking economy of scale and towards fishing-marketing backward integration. Also, additional overfishing risks are bound to result from the high demand for certain niche-market species. For other species, resorting to imports is predictable, with sometimes major substitution effects.

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