

## Exploring the Potentials of Short Food Supply Chains with Special Regards to Locavore Shelves

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**Abstract:** Over the past decades, a rapid concentration of retailers characterised the food chain, however, recent years have seen a growing demand for stronger producer-consumer relations and the different types of Short Food Supply Chains (SFSCs). Although the conventional forms of direct sales are widely adopted in Hungary (e.g. local farmers' markets), the modern, innovative forms like the box schemes, home delivery or community supported agriculture, locavore shelves (also referred to as local produce shelves), etc. have enormous potential and have been seen as effective rural development tools. This study analyses the experiences, opportunities and challenges of Short Food Supply Chains and the system of locavore shelves which have a key potential in solving the sales problems of local small producers as well as in increasing the sustainability of agro-food systems and rural development in Hungary.

**Key Words:** Short Food Supply Chains, Direct Sales, Family Farms, Locavore Shelves, Hungary

### 1. INTRODUCTION

In comparison to conventional globalised long food supply chains, a short food supply chain is a partnership between producers and consumers. The word "short" indicates a reduced physical and social proximity and a minimised number of intermediaries. A short food supply chain (SFSC) is characterised by a limited number of economic operators and few (only one) intermediaries and their role is to promote a stronger link between the producer and the consumer. They are dedicated to enhancing local development and strengthening the social and geographical links between producers, processing companies and consumers. The most typical forms are collective sales, specialist shops, shops owned by farmers or when farmers sell their products directly to public institutions or restaurants. A short food supply chain can become a form of direct selling when the consumer is in direct contact with the producer (Murdoch, 2000).

The adopted forms of SFSCs are determined by the geographical location or the region. For instance, community supported agriculture or ecological farming can be viable in regions with greater buying power (Giuca, 2012). The impacts of SFSCs on society are, among many others, more sustainable production practices, a decrease in unemployment and depopulation. A relevant aspect is that money spent on authentic food products within the local community enhances economic recovery and fosters local economic development. One of the reasons is that local producers are more likely to spend money locally (Renting, H. – Marsden, T. K. – Banks, J. 2003).

Within the context of the Common Agricultural Policy (CAP), the European Union has not only promoted a competitive agricultural sector, but it increasingly supports rural development and addresses environmental and territorial challenges. This re-orientation was reflected by the European Charter for Rural Areas, the Cork Declaration, the Cork 2.0 Declaration, and the current Regional Policy of the EU. Large food retail chains created considerable problems for local small producers and the traditional agricultural policy instruments cannot maintain their income position. The situation is made more difficult by the adoption of increasingly tighter human and animal health standards that require major investments (Benedek - Balázs, 2014).

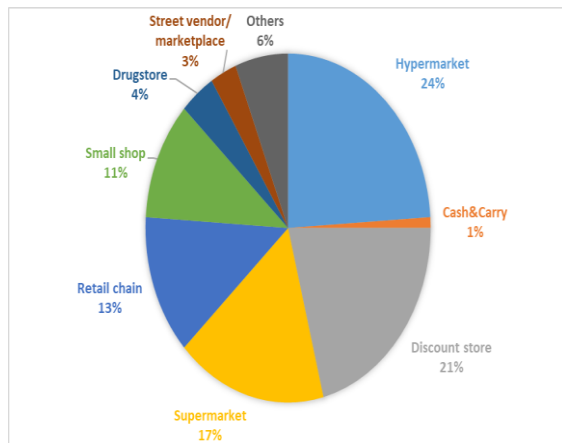
SFSCs have recently been growing in popularity due to a new consumer trend on the European markets: there has been a growing demand for authentic, safe and healthy food. Developed mutual commitment and trust between producers and consumers is a central component. The proper value of knowing the farmer and the region where the food was produced is increasingly recognised. For consumers and mass caterers, SFSCs ensure that food contains reduced amounts of flavour enhancers and preservatives, they guarantee freshness and provide food with geographical indication of origin.

### 2. THE CHALLENGES OF RETAIL CONCENTRATION

In the past decades, food vertical chains have been characterised by a concentration in food retail trade. In Hungary, significant concentration began

in 1989 as a result of globalisation and the advances in information and communications technology. Rapid expansion of foreign-owned hypermarkets and supermarkets characterised the transformation of retail trade and they had a growing share in the total daily consumption expenditure of households. According to related studies, one shopping centre can normally serve 100-150 thousand inhabitants, however, in Hungary, a lot more stores were built in several large towns.

Figure 1. Market share of sales channels in Hungary in 2017 (%)



Source: GfK, 2018

Concentration and vertical integration can strengthen the bargaining power of retailers against agricultural producers as well. If many producers are present in a market, retailers might enjoy some degree of monopsony power (Seres, 2006).

Information asymmetry between retailers and suppliers strengthen the bargaining power of the former: retail chains have information about the market conditions, buying habits of customers, due to their direct contact with customers. Barcodes enable retailers to store data about consumer preferences, habits and behaviours and this information can be used against competing suppliers which may have a distorting effect on the retail market. Retailers have information about the economic situation of the suppliers as well. Suppliers, on the other hand, have information only about the marketing plans of their own products, therefore, due to information asymmetry, they have less bargaining power (Balto, 1999).

In the case of agricultural products, prices are determined not only by supply and demand but by the linking of buyers and sellers on the market as well. Agricultural producers are usually price takers rather than price setters. Their prices are determined by the demand for their products.

Small-scale producers have access to fewer alternative large buyers and therefore they have less bargaining power. Small-scale producers often do not have access to working capital, and it is not unusual that they have to buy even the seeds and propagating material from the purchasers. Contracts (often at predetermined prices) can ensure a stable income and make a direct contribution to the producer's annual household income. Long-term contracts, however, reduce the financial uncertainty and small-scale producers can gain a reliable flow of income (Lisányi, 2014).

As a result of concentration and integration, agricultural producers become more dependent on food processing and food retailing companies. Most agricultural auction-type, perfectly competitive markets are replaced by vertical control through the use of long-term production and marketing contracts. Small-scale producers become strongly dependent on purchasers who abuse their dominant buyer power over the producers. Contracts may also help to consolidate the buyers' market power that may result in the hold-up problem (e.g. excessively long delays in payment for the delivered product, the producer is forced to accept disadvantageous terms later or ex post renegotiations of terms).

Branded goods are increasingly replaced by generic own-brand products that are sold under a retail store's private label. Suppliers are increasingly concerned about dependency. Late payments allegedly become more frequent, slotting fees or pay-to-stay fees are charged. The private label products are well-designed, tried and tested versions of branded products that can be sold at a lower price due to the absence of brand development, packaging, and marketing costs. Since retail chains are intermediaries between producers and consumers, the entire production chain forms part of the logistic system of the retailer, which results in increased dependency between processors and traders.

As the profitability of smaller suppliers is decreasing, the production of own-brands or specialisation may increase their market power. Suppliers may build their own production capacities and manufacture store brand products for themselves. If they have enough buying power, they might be able to negotiate a reduction in the retailer price. The rate of sales of private label products versus branded products is influenced by the allocation of shelf space and in-store promotions and the former products are extensively promoted in brochures as well resulting in a decreased demand for branded products, not to mention the

limited possibilities for producers. Brands provide identification of their products with unique associations to the stores, therefore retailers can make higher gross profit margins on own brands (Lisányi, 2014).

Some forms of brand positioning are important tools for image creation, e.g. different messages can be associated with own-brand goods („#Economical”, „#Value”). Private label products mean publicity for retailers since their logos or trademarks are continuously displayed. They encourage customer loyalty by selling 'strategic' products under their private labels taking advantage of the consumers' price sensitivity and brand loyalty.

There is significant rearrangement among the players in the food market as well. Trade is becoming more concentrated, the number of food retail chains and the size of the retail outlets are gradually increasing. This trend resulted in a shift in the balance of power in the agrifood chain in the European Union, in the USA and globally as well. In the agrifood chain, consumers and producers, the final links in the supply chain, have the weakest bargaining power since they are usually immobile, inefficient and less well-informed (Schlett, 2014). Intermediaries (retailers and wholesalers) generate substantial price competition and high margins, however, the profit is not realized by the producers. Although small-scale production is the most sustainable form of production, it is becoming less significant than large-scale production since it is less efficient and costs more.

### 3. THE POTENTIALS OF SHORT FOOD SUPPLY CHAINS AND LOCAVORE SHELVES

Recent years have seen greater attention paid to initiatives designed to re-localise food production and distribution in the agri-food sector in order to address the systemic problems discussed earlier (Ilbery et al., 2006). Re-localised production chains reduce the proximity between production and processing, furthermore, the local dimension and the regional provenance of the products are emphasised. Relocalisation can result in reduced proximity between the location of production and consumption as well (Mácsai, 2012).

The different forms of SFSCs emerged in search for alternatives to conventional, long food chains partly due to a sense of dissatisfaction among consumers and producers. SFSCs can strengthen the development of food networks, facilitate direct information exchange, create mutual trust, transparency and traceability. The greatest benefits

of SFSCs are fairer power relations of producers and their reduced economic vulnerability. Producers can become price setters rather than price takers, and they can apply more differentiated product marketing strategies with regards to packaging, the use of logos and brand names. SFSCs can improve access to fresh, high quality food.

Food production and sales are regulated to a significant extent. Food safety and hygiene regulations, taxes, standards and the need for certification are tailored mostly to the needs of conventional agribusiness and large-scale production that objectively hinder the development of SFSCs. This anomaly is not only reflected by increasing production costs but can disregard the need for small-scale agricultural production and diversification. The development of SFSCs can be facilitated by improving the legislative environment with special regards to implementing compliance regulations and tax arrangements in the given country (Szabó, 2014).

Agricultural producers operating in the short food supply chain are the weakest agents, they have a weak bargaining position and negotiation power. They are usually small-scale farmers, sole traders or micro-enterprises having weak self-organisation and bargaining power. They have limited time for selling their products, therefore it is crucial for them to maximise their selling opportunities by cooperation, making joint investments and selling their products via different sales channels. SFSCs provide an opportunity for farmers not to be overly dependent on the stronger participants of traditional distribution channels, leaving aside the fact that crop yields fluctuate in time and quantity (Szabó, 2014).

Experience has shown that in most cases SFSCs have a "prime mover", for instance civil society actors, LEADER groups, local authorities or public bodies, since it can often be very difficult for farmers to navigate the overly complex system of legislation without external help. In Hungary, regular farmers' markets are the dominant and most popular type of SFSCs. Although there is a growing demand for more innovative types, especially in the capital city, in county seats or at tourist sites, only a smaller proportion of consumers are regular customers. In the past ten years, there has been several bottom-up approaches. Box scheme initiatives are becoming increasingly popular, caterers and retail shops are supplied with local food products.

As a result of the changes in the regulatory environment, the number of local producers' markets increased from 118 to 237 between 2012 and 2016 in Hungary. The opening of new

local producers' markets boosted small-scale production and SFSCs seem to be justified by the growing demand for farm products (NAK, 2018).

In the SFSCs, the most popular products are fresh seasonal fruits and vegetables, traditional, artisanal, processed food products. Customers acknowledge the quality features of the products, the closer personal relationship and interactions. Box schemes can reduce transport and distribution costs because the boxes are delivered to a given distribution point where customers can collect them. SFSCs create a good opportunity for small-scale producers to sell their produce at jointly managed points of sale for example at hotels, tourist information offices or at locavore shelves (Kujáni, 2014).

Attention must be drawn to the difference between „local food” and „locality food”. Local food refers to products that are produced and consumed in a defined place within a certain distance, whereas the term 'locality food' refers to specific features or a distinguished provenance associated with a particular region that serves external, more distant markets. It is important to establish a brand with a uniform graphic design and to provide the best shelf visibility for the products (Ilbery et al. 2006).

When the locavore shelves are displayed in hotels or catering establishments (restaurants, inns, canteens) that have a kitchen, the local products can contribute to the success of the business if the food products that are displayed are available on the menu as well so that the guests can taste them. In this way, the customer can get information about the history and traditions of the region, while the catering establishments can offer specific, unique dishes made of local or locality food products. Another advantage is that these products can find a market directly in these catering establishments. Purchases of goods, keeping contact with the producers, dealing with the documentation and quality checks can, pose a problem for these businesses, therefore intermediaries that can undertake purchasing and administrative tasks, and storing of local food products are needed. The number of intermediaries between the farmers and consumers should be limited so that the intermediary could keep a direct contact with the point of sales and producers. As a result, businesses selling local food products have less administrative burden and financial flows and the movements of products can be monitored. These businesses receive a joining fee and a commission on sales made, in addition, external partners, e.g. government bodies, local governments or civil societies can support their operation.

#### 4. SUMMARY

In recent years, as global food chains have expanded and become increasingly concentrated, there has been a growing demand for closer producer-consumer relations and re-connecting the two ends of the food supply chain by different forms of SFSCs. This is justified by the Eurobarometer survey of 2011 and 2016 as well. The majority of the respondents in the European Union and in Hungary held the view that the European Union should develop incentives to support SFSCs.

The immediate objective of the modern, innovative and ethical forms of SFSCs (e.g. community supported agriculture, delivery schemes, farmers' shelves, etc.) is to promote locally produced food and handicraft products, to improve the visibility and recognition of local producers as well as to broaden the sales opportunities for high quality products, which provides the opportunity for producers to sell and distribute within a maximum distance of about 40-50 km. Achieving that requires complex marketing activities that link places of supply, products and producers so that consumers can receive products at a lower price, directly from the producer, without intermediaries as goods are fast delivered from nearby producers and manufacturers. This system provides various facilities for consumers and producers to interact and to build trust. Consumers can learn about the identity, ethics and values of the place of origin and the touristic potentials of the given area.

There has been a growing demand for locally produced food. These products are usually available at food fairs and festivals, while hotels, restaurants, tourist information offices also offer them to a lesser extent, although local products are in demand by tourists. Local small-scale producers need more complex collaborative networks that can enhance diversification and ensure a wider choice of products. Local, locality and traditional products may act as an attraction to tourists who are open to new tastes. Buying local food products can confer economic, social, cultural and environmental benefits on the region and it contributes to preserving the welfare and health status of the consumers due to the system's lower environmental impact.

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