North American Food Retailers and Their Impact on Food Chains

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Outline

- Consumer and food retail changes
- Changes in Mexican produce chains
- Case studies and changing requirements
  - Meeting scope and quality needs - Associations for Mexican cactus pears and mango
  - Food safety – Mexican cantaloupe and changing food safety demands
  - Quality and complexity – Ontario veal
- Conclusions

Changes at the consumer level

- Demand for year round availability
- Interest in variety and new products
- Lack of time
- Greater affluence
- Concern over health and safety

Mexico is experiencing most significant changes in consumers

- Greater urbanization
- Higher incomes, particularly in cities
- More women working
- Higher use of refrigerators

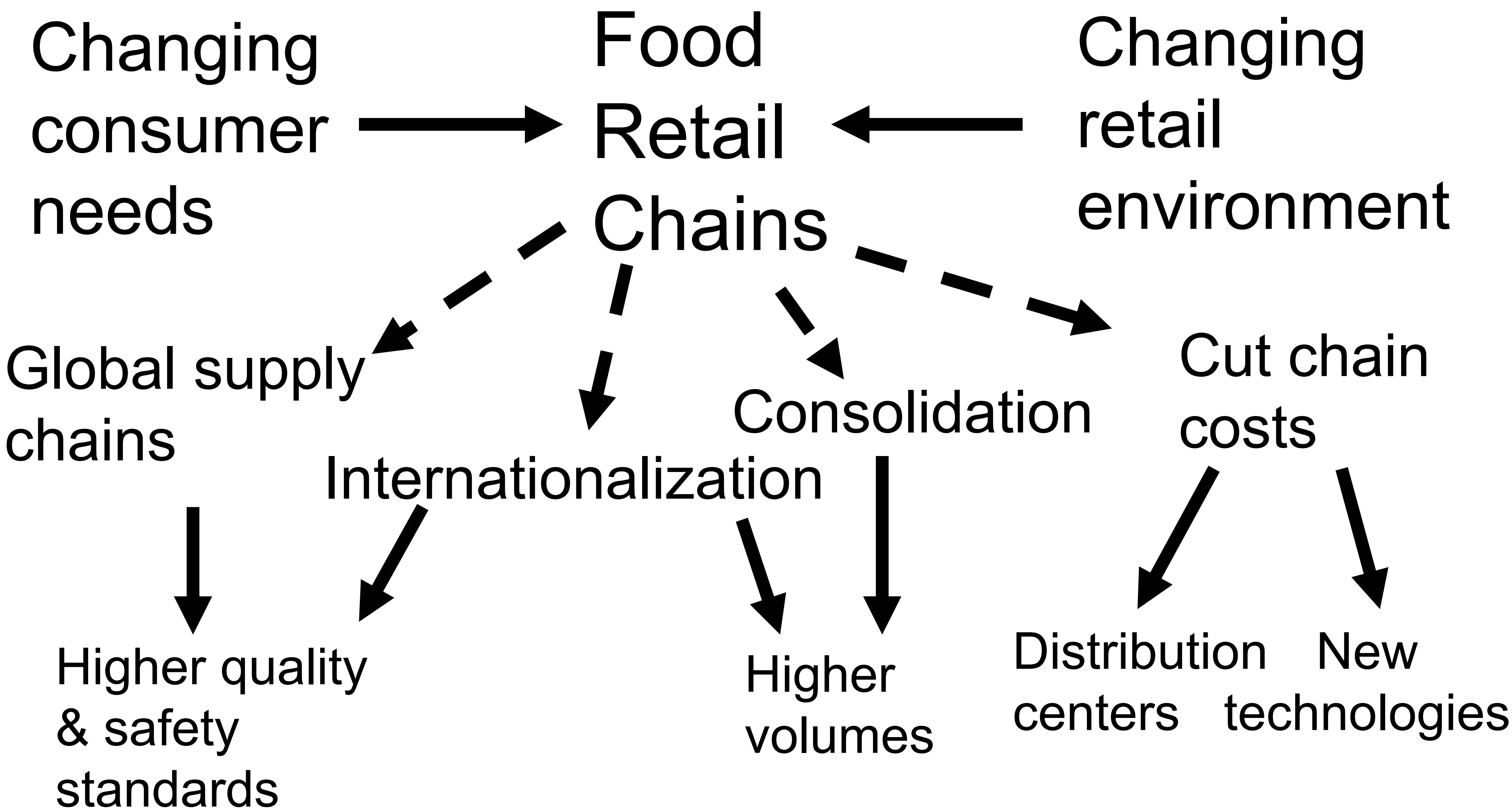
↓

Need for one stop shopping and **ability** to purchase for more than one day

→ increased use of supermarkets

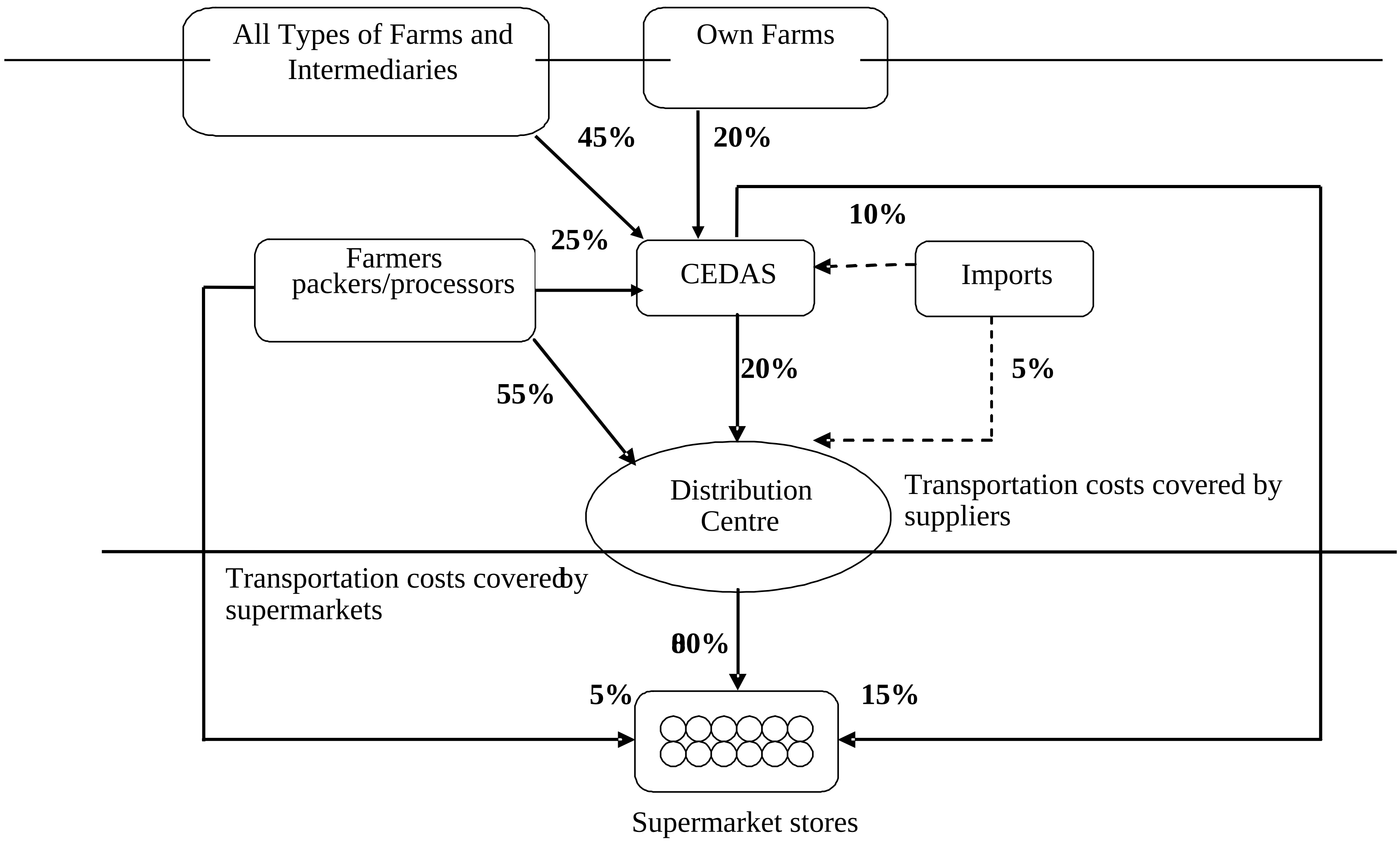
Changes in food retail

- Intense competition in Canada and U.S.
- Growth strategies
  - Consolidation
  - Internationalization – expansion into less competitive developing markets
- Meeting consumer demands leading to more international chains
- Larger size – larger distribution systems



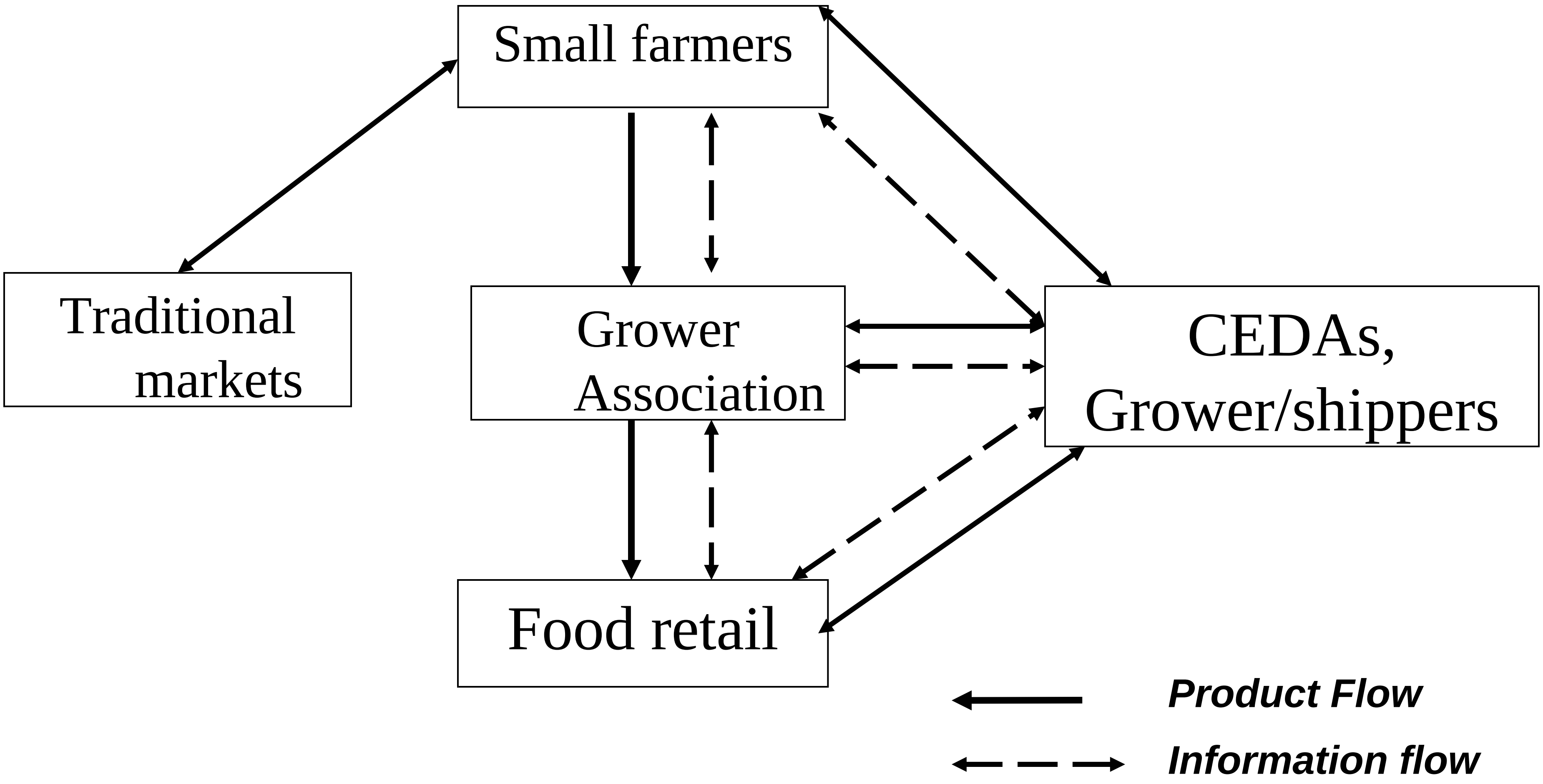
Changing consumer needs
Food Retail Chains
Changing retail environment
Global supply chains
Internationalization
Consolidation
Cut chain costs
Higher quality & safety standards
Higher volumes
Distribution centers
New technologies

Mexican Produce Chains



Source: Cervantes-Godoy, 2007.

Case 1 – Associations are the only way small farms reach retailers



Producer organized associations

- Study of small producers in Mexico
- Associations were the only way for small producers to reach food retail chains directly
- Four associations examined in detail
  - Two cactus pear and two mango

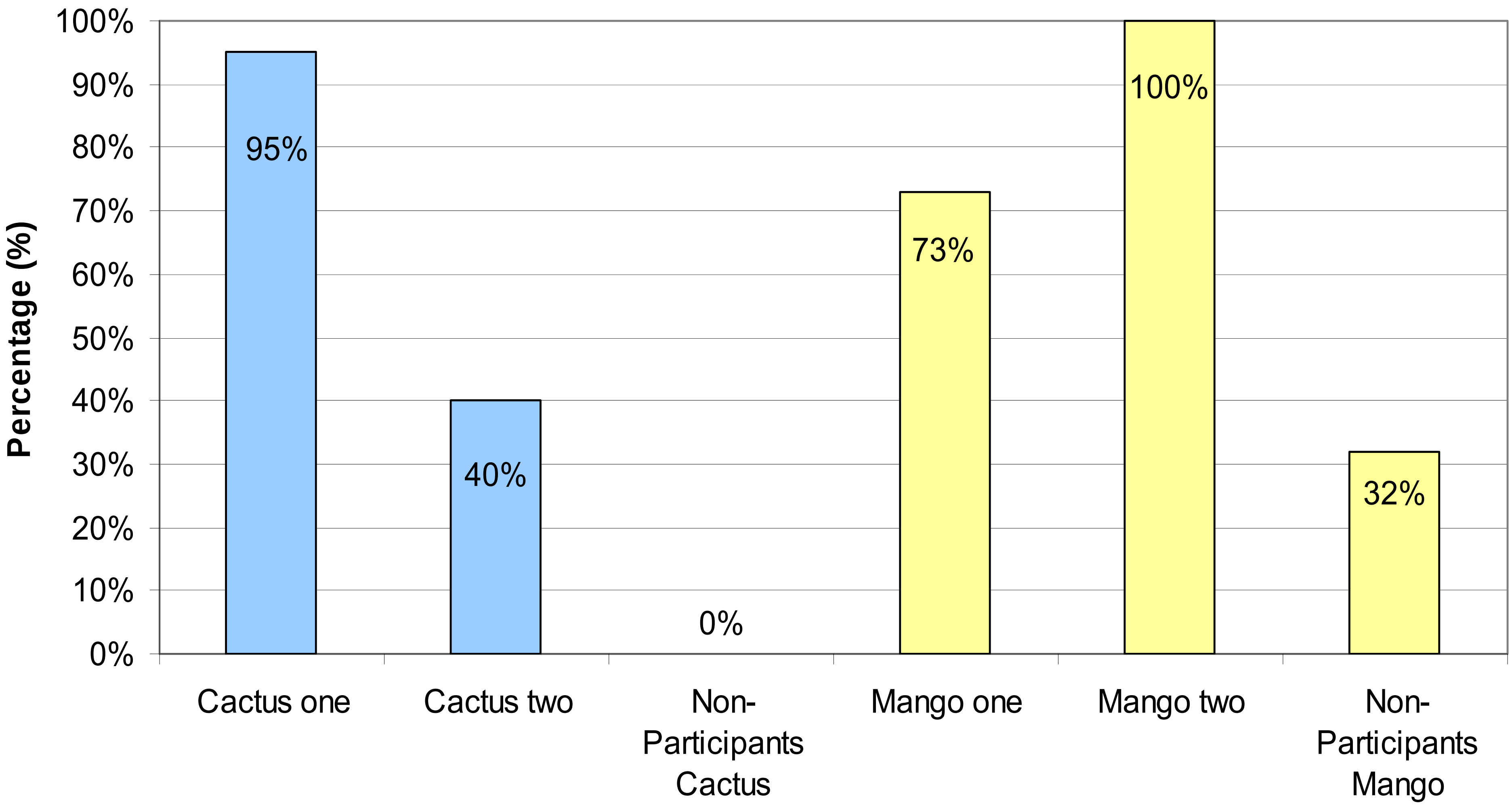
Four producer associations

	Cactus one	Cactus two	Mango one	Mango two
# of farmers	35	82	414	51
# of active farmers	25	76	60	30
Clients	Supermarkets, CEDAs, packers and export	Supermarkets, CEDAs, and export	Supermarkets and packers	Supermarkets and CEDAs
State	Zacatecas	Zacatecas	Nayarit	Guerrero
Years selling to supermarkets	3	2	3	4
% sold to supermarkets in 2004	53%	11%	41%	40%

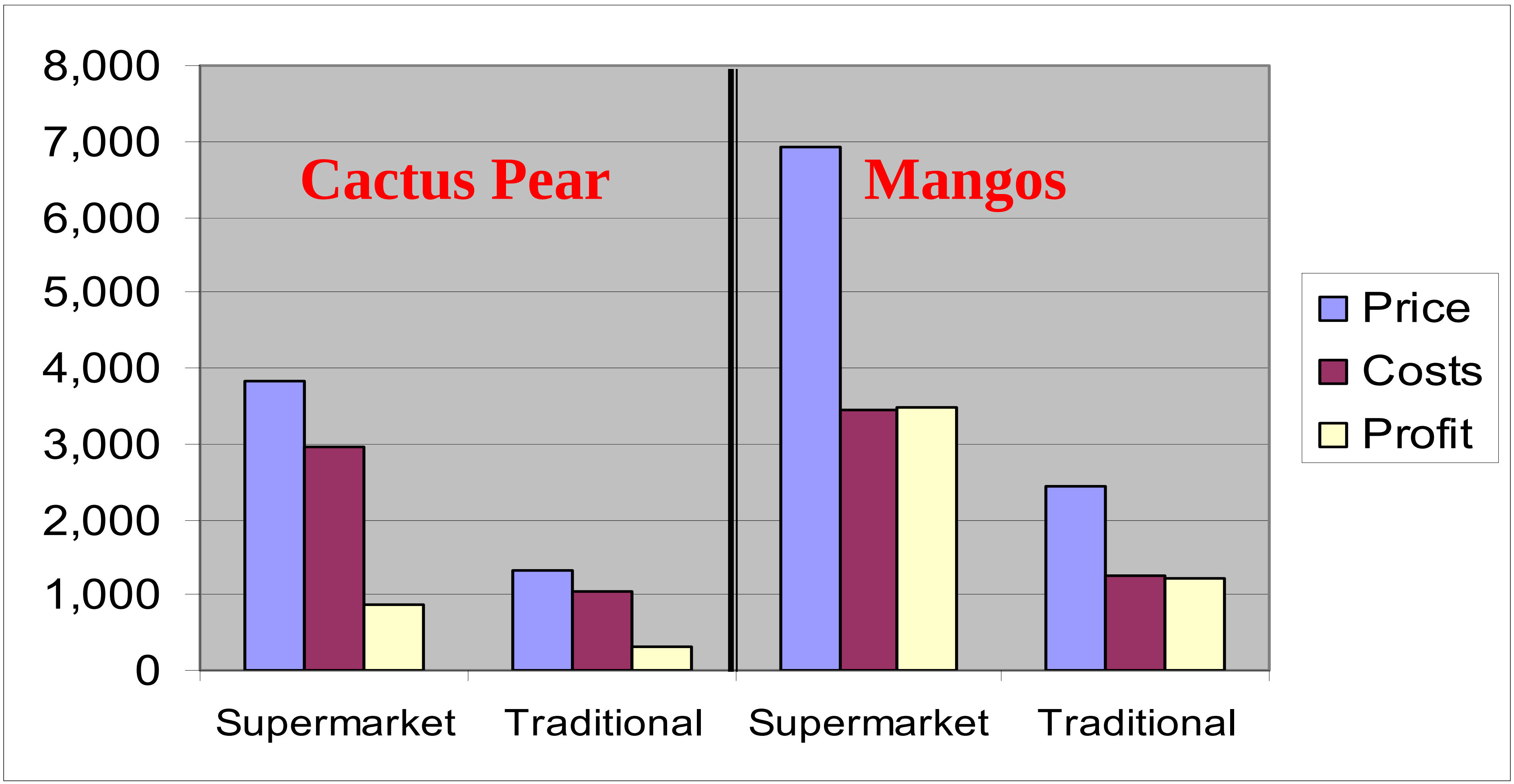
Associations play several roles

Supermarket requirements	Advantages of farmer associations
Volume & consistency	Consolidate farmer supply
Quality	Access to technical assistance and credit
Packing & transport	Credit for facilities and working capital
Administrative and financial management Use of Internet and EDI for ordering	Access to training through gov't programs. Finance for equipment and hiring trained individuals (general managers).
Payment and discounts	Working capital to manage time from delivery to payment
Trust environment	Managing relationships with farmers and retailers

Access to credit is important



It pays to sell to supermarkets



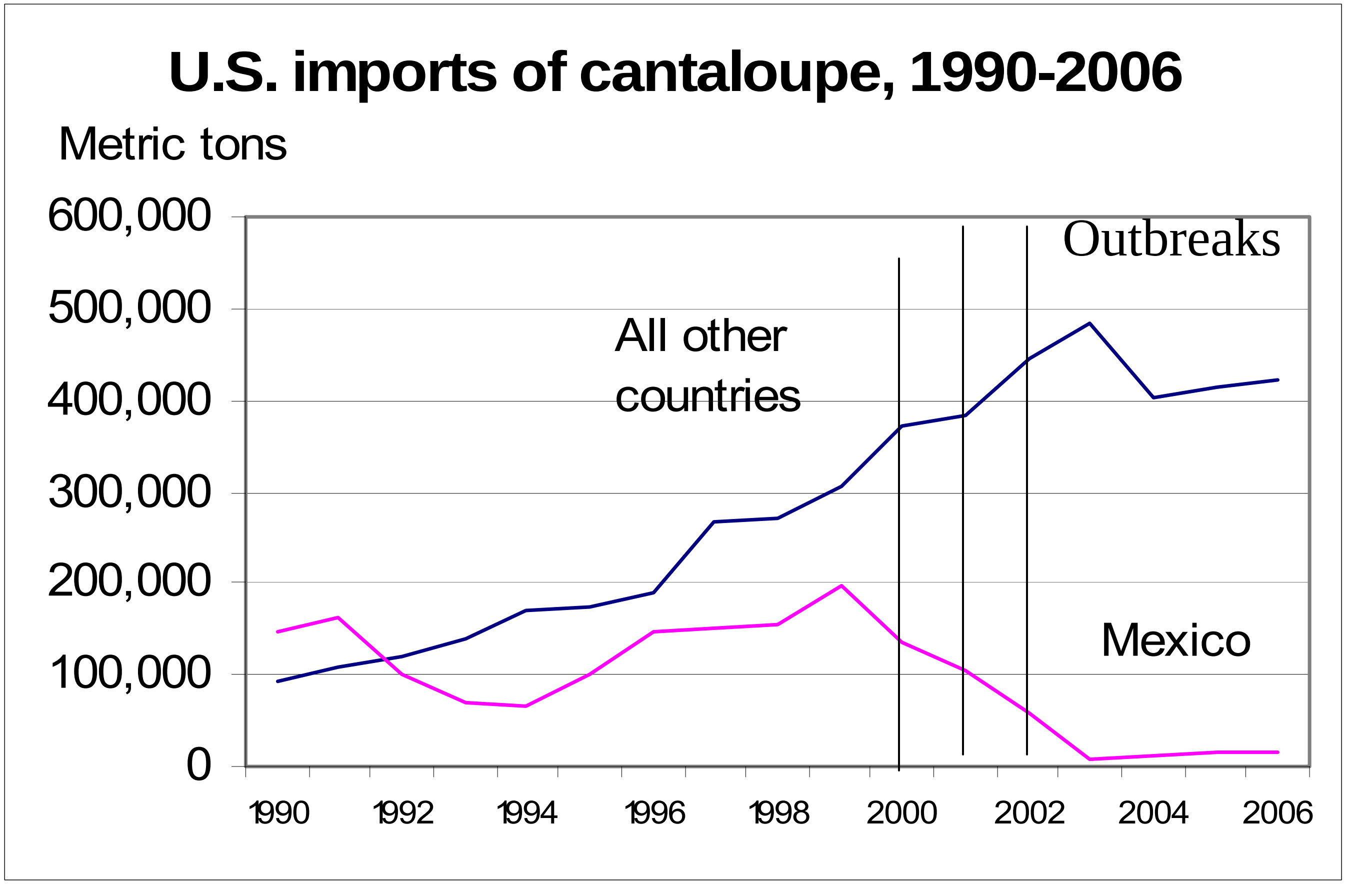
Results

- Cactus 1 – started in 2001 – still operating
- Cactus 2 – started in 1983 – changed structure in 2001 – sells mainly to CEDAs
- Mango 1 – in 2004 lent money to growers. Many did not pay so no credit in 2005
- Mango 2 – operated for many years
  - Drought in 2005 reduced quality – could not sell to supermarkets and ceased operations

Lessons from producer associations

- Only way for small producers to reach retail directly
  - Can also reach CEDA’s and other markets
- They pay – higher costs but higher profits
- Access to capital essential
- Risks
  - Finance – loans to members
  - Production – one product, one region

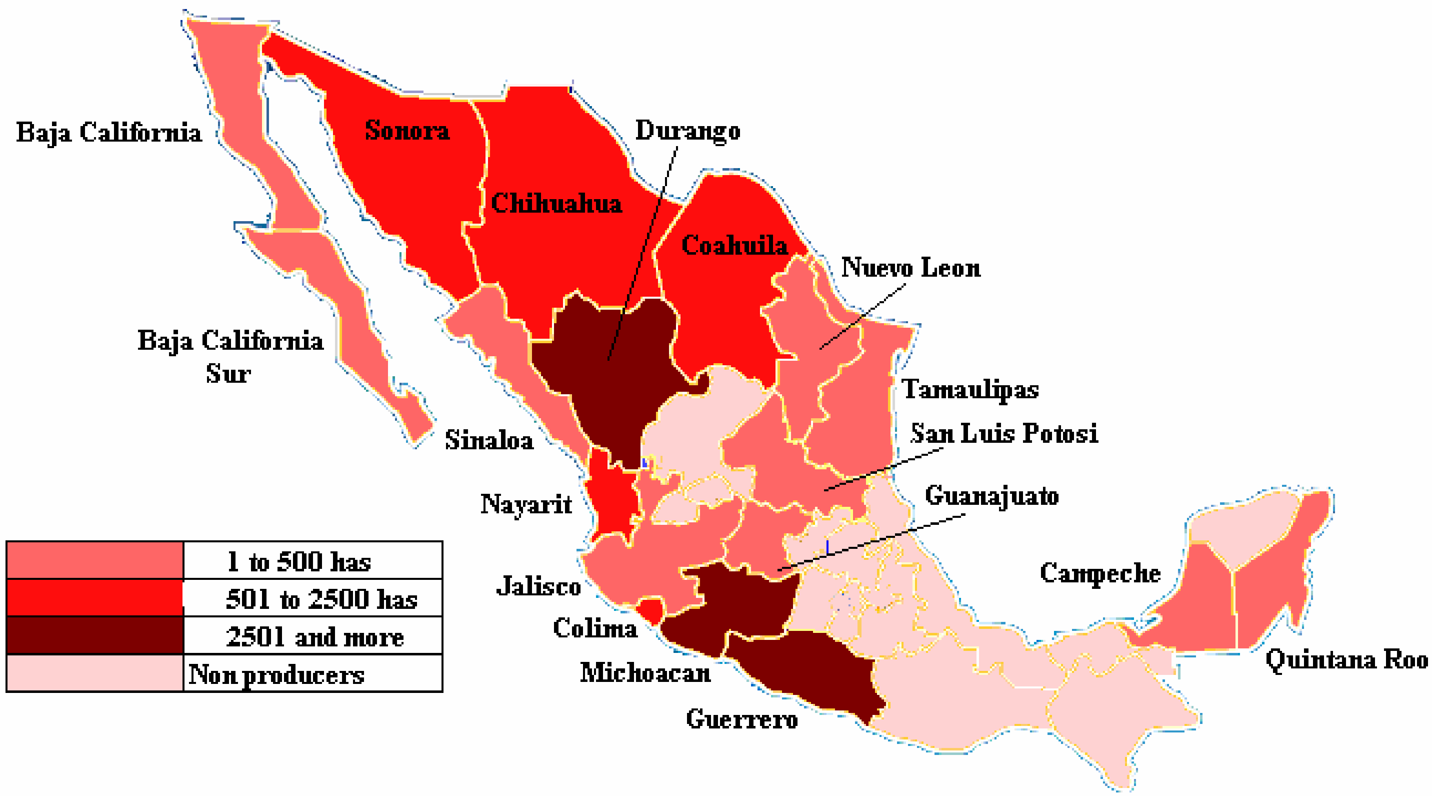
Case 2—Food safety, small farmers, and cantaloupe



The Mexican response

- NOM-EM-038-FITO-2002
- March 2007
  - 13 firms certified by SENASICA
  - 12 field and packing
  - 1 just field
  - Sonora (10), Colima (2), Michoacan (1)

Cantaloupe production by region



Field work in Colima, Mexico

- Known as the Mexican cantaloupe capital
- Growers in Colima have never had a food safety problem

Colima growers used to be export oriented, with great experience in growing cantaloupe for export markets

- Most Colima growers are small scale and based on ejidal property
- Colima is near Guerrero which has been associated with outbreaks

The state of food safety knowledge among small cantaloupe growers

	Yes	No	No response
Have you been affected by food safety problems?	2 (12%)	15 (88%)	0 (0%)
Do you know about Good Agricultural Practices?	2 (12%)	12 (71%)	3 (17%)

Requirements for adopting new food safety standards

	Number
Standards not very strict	3
Information and training support	6
Mandatory or buyer-requested	1
Higher price	1
Improved production	1
No answer	3

Conditions related to food safety issues

The contrast between large and small farmers

Actions needed to improve marketing

	Number
Adopt higher food safety standards	3
Eliminate middlemen	2
Improve quality	6
Direct marketing	1
Reach new markets	3
Other	1
No answer	1

Support needed from government to support small cantaloupe growers

	Number
Financial aid	5
Training support	2
Market information	7
Improved access to equipment and machinery	3

Export/domestic market strategy for small Mexican growers

- Before 2002, 80 percent of production went to the export market
  - 2 small growers had their own packinghouses
  - The rest exported via intermediaries
- After 2003, 83 percent of production went to the domestic market

The lessons

- Retail industry drives the adoption of food safety standards
- IFSS relegate small firms to less profitable and less regulated domestic markets
- Ability to adopt depends on firm scale
- Associations can lead small growers to international markets
- Credit is a major issue

The lessons ….

- Extension and credit improve IFSS
- Packing facilities and cold chain are critical for food safety certification
- Government can play a major role in promoting IFSS for small farmers

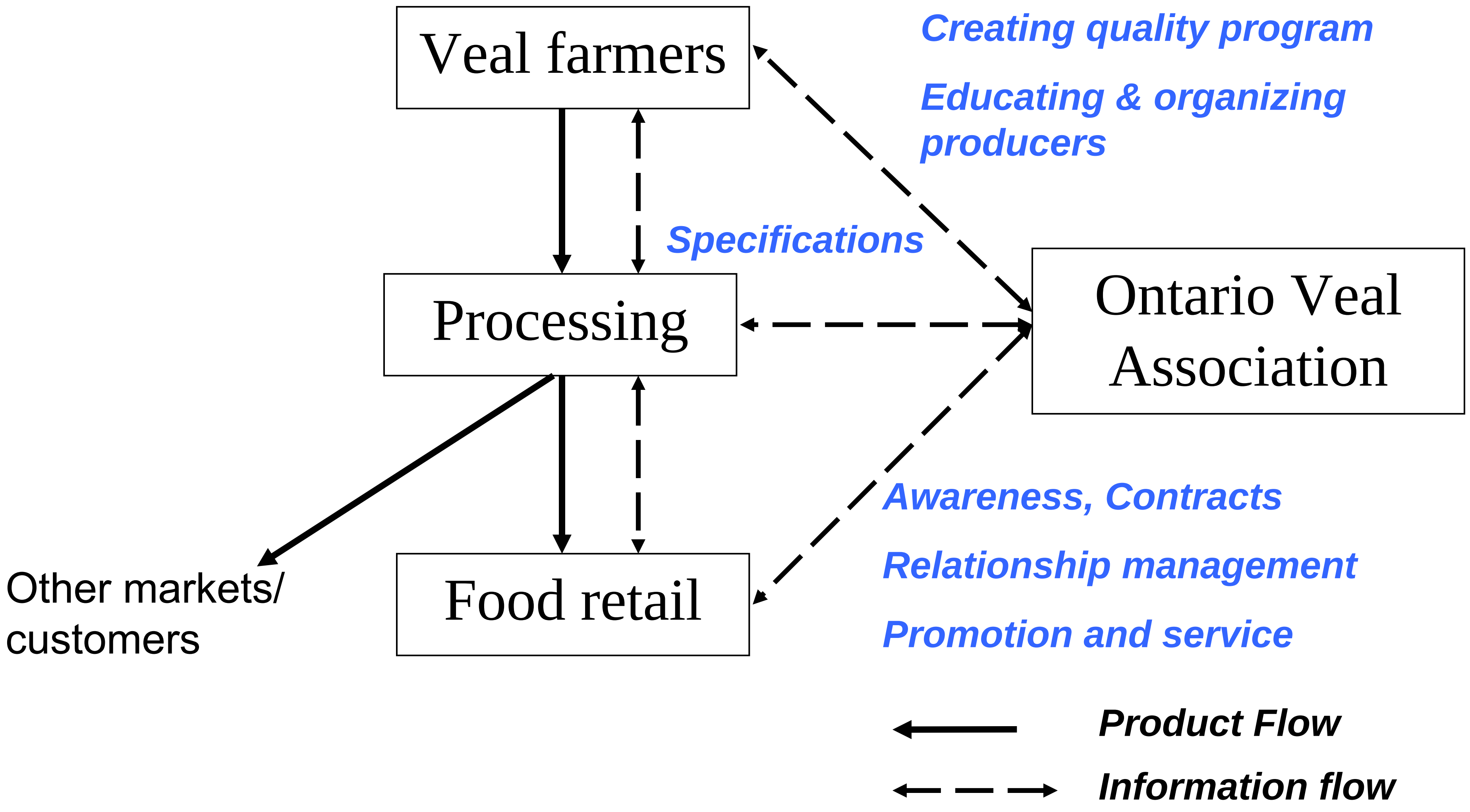
Case 3 – Quality and complexity

- Ontario veal producers association
- Small farmers – market through processors
- Association took a proactive approach to meeting retail quality needs
- Ont. Veal Quality Assurance Program
  - Requirements including audit/ certification
  - Strict processing specifications
  - Program included cooking instructions, in store support and a quality guarantee

Retail reaching out

- Small retail chain serving ethnic customers was looking for innovative products
- OVQAP was perfect for delivering higher quality veal products
- OVA selected a processor to prepare the product to their specs
- Learning with the small chain allowed the OVA to search for larger customers

An active/market responsive role for producer associations



Scaling up - The Challenges

- Scale – larger retailer, 69 store launch required more producers, larger processor and links through to retail customer
- Scope – retail requirements changed
  - Not just looking for a single product, or even a single product line
  - Retail chain wanted a line of products that varied through the year

Trouble in the middle

- Veal produces multiple products
- Retail chain only wanted selected parts and the processor had to sell the rest
- Volume and continually changing demands made it difficult for the processor
- The project has been much less successful than the first or than anticipated

Lessons from OVA

- Anticipating retail needs can provide producers with marketable advantages
- Retail may drive food chains but they aren’t the only powers in the chain
- The more complex the product and the chain the more potential for unanticipated problems

Looking ahead – More of the same

- Food retail chains will continue to grow and dominate supply chains
- Producers must meet greater demands for volume, variety and year round availability
- Marketing options are limited
  - Sell direct - alone or through associations
  - Sell through agents/distributors
  - Ignore retail markets – direct to consumer

Trends to expect

- Smaller farms will continue to face challenges selling directly to retail
- Many producers will be best suited to market through middlemen
- Associations will serve more than small farms
- Networks of various types will help producers meet retail needs
  - Same product/same area
  - Different products and different regions

Thank you