FOLIA POMERANAE UNIVERSITATIS TECHNOLOGIAE STETINENSIS
Folia Pomer. Univ. Technol. Stetin., Oeconomica 2014, 314(77)4, 99–106

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SUPPLY SOURCES OF SPECIALIST OUTLETS OFFERING ORGANIC FOOD IN POLAND

ŹRÓDŁA ZAOPATRZENIA SKLEPÓW SPECJALISTYCZNYCH OFERUJĄCYCH ŻYWNOŚĆ EKOLOGICZNĄ W POLSCE

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Streszczenie. W artykule zaprezentowano wyniki badań prowadzonych w handlu detalicznym żywnością ekologiczną w latach 2011–2012 w ośmiu największych aglomeracjach miejskich w Polsce. Badaniami objęto 131 sklepów specjalistycznych oferujących żywność ekologiczną. Z przeprowadzonych badań wynika, że asortyment badanych placówek jest dość zróżnicowany, niemniej jednak występują braki niektórych poszukiwanych produktów, zwłaszcza w mięsie i wędlinach. Braki te wynikają z faktu, że łańcuch dystrybucji żywności ekologicznej nie jest dostatecznie rozwinięty. Zarówno liczba, jak i oferta pośredników jest niewystarczająca, aby zapewnić pełny asortyment ekoproduktów. Najważniejszymi źródłami zaopatrzenia badanych sklepów są hurtownie i gospodarstwa ekologiczne, jednak rozproszenie podaży jest dość duże, co dodatkowo podnosi koszty i ceny. Współpraca mniejszych sklepów w zakresie zakupu, jak również między sklepami i dostawcami, w pewnym stopniu mogłaby się przyczynić do rozwiązania problemów z zapewnieniem kompleksowej oferty żywności ekologicznej.

Key words: organic food, product range, retail, specialist outlets, supply sources.
Słowa kluczowe: asortyment, sklepy specjalistyczne, sprzedaż detaliczna, źródła zaopatrzenia, żywność ekologiczna.

INTRODUCTION

The organic food market in Poland is small and poorly developed, but its growth potential is estimated to be quite significant. Direct sale and health specialist shops dominate in the distribution of organic food, which is typical for countries with slightly developed market. One of the issues is geographic dispersion of organic farms, accompanied by lack of solutions which would assure efficient product flow. Properly organised distribution channels have substantial meaning for the development of organic food market. Efficient sales channels enable penetration of the market and sale of organics at higher prices in comparison to conventional products, due to which the higher costs of organic food production are covered.

The aim of this paper is to present and analyse relations between the product range offered in health food stores and their supply sources. The paper discusses the results of research conducted in 2011 and 2012 within the framework of the research project "State and Conditions of Organic Food Retail" financed by the Polish Ministry of Science and Higher Education.

PRODUCT RANGE

Organic food market in Poland is still small and not transparent. Therefore, it is necessary to identify its main elements and conditions for its development. In 2011 and 2012 research of organic food retail outlets was carried out covering 131 specialists outlets located in eight biggest Polish agglomerations of Warsaw, Upper Silesia, Cracow, Lodz, Wroclaw, Poznan, Gdansk and Szczecin. The research was conducted in form of a questionnaire survey. This standardised questionnaire contained questions relating to the range of products offered in specialist shops, supply sources, prices of organic food, price and marketing strategies applied by retailers, a well as their opinion on the organic food market and distribution.

Direct sale of organic food and through specialist channels dominate in Poland, reminding of the way this market functioned in Western Europe at its initial stage of development. However, it is worth mentioning that specialist shops in the West had always had a large and diverse offer of products, while in Poland the product range shows no variety and is mainly based on processed articles. Moreover, direct sale offering only fresh, selected farm produce, is concentrated mainly in urban areas. Therefore, development of the organic food market, widening of the product range and improvement of the products' accessibility in retail outlets located in cities are of vital significance.

The surveyed stores had different product range. Their range of products was relatively rich, because over 57% of the outlets had over 200 organic products on offer and only 3% less than 50 articles (Fig. 1).

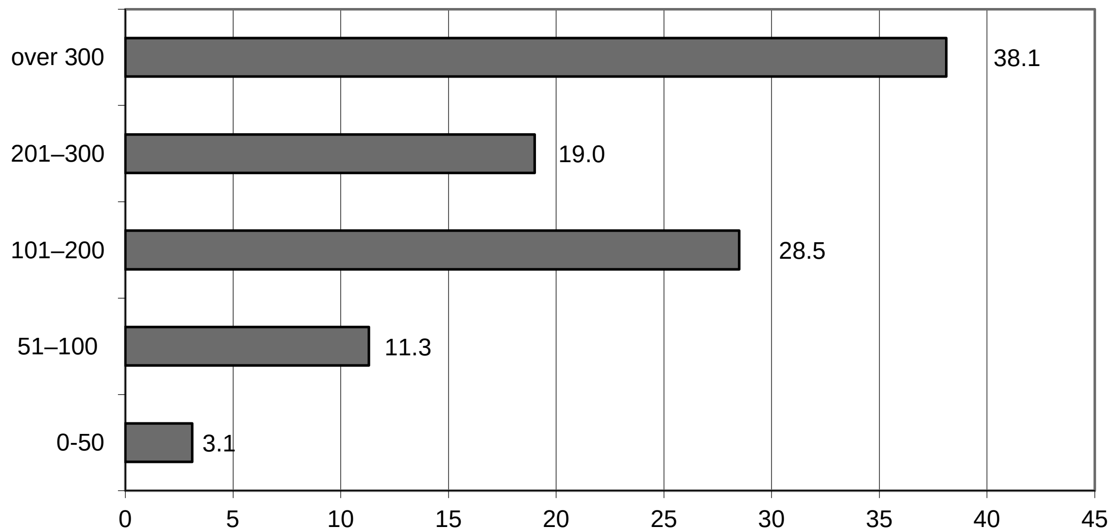

Fig. 1. The outlets' structure according to product range (%)
Source: authors' own research.

As it comes to product assortment, most outlets offer breads, eggs, cereals, fruit and vegetable products, dairy products, spices, oils, tea and coffee, while only very few – meat and sausages (Table 1). Such assortment composition reflects the structure of organic food processing in Poland, because most enterprises process cereals, fruit and vegetables, while very few – meat. Insufficient number of organic meat processing plants contributes to the creation of supply gap. Consumer studies prove that the least developed production, that is meat and meat products, is the most sought after by consumers. This points clearly to existing shortages in supply, and thus unsatisfied consumer needs (Łuczka-Bakuła 2007).

Table 1. Width of product assortment in retail outlets surveyed

Product group	The share of stores offering a given product group (%)
Breads	69.0
Cereal products	72.6
Dairy products	67.9
Eggs	69.0
Fruit	65.5
Fruit products	67.9
Meat	31.0
Oils	67.9
Sausages	40.5
Spices, herbs	69.0
Sweets	67.9
Tea, coffee	67.9
Vegetable products	67.9
Vegetables	65.5

Source: authors' own research.

Organic food distributors are aware that the products' accessibility is not sufficient. Almost 70% of retailers confirm that sometimes they are undersupplied as it comes to certain very much desired products. This indicates the need for widening the assortment offer in specific product groups, e.g. meat and sausages. Nearly all retailers aim to widen their product range, however this wish is conditional on increased demand of organic food, more competitive prices and wider assortment offered by the suppliers.

SUPPLY SOURCES OF THE RETAIL STORES SURVEYED

Supply sources and good relations with suppliers constitute one of the most important elements of a trading enterprise, which holds true also for organic food retailers. Thanks to good relations with suppliers, a market strategy can be formed. It is very important to achieve the so-called 'demand competitiveness' by efficient acquisition of suppliers and the ability to forge strong relations with them, which usually results in reduction of purchase costs and, what follows, more competitive prices (Strojny 2011). On a poorly developed market, where retailers are forced to seek for alternative supply sources, it is absolutely essential to ensure the most complete product offer possible and simultaneously, to reduce the transaction costs to minimum.

Purchase of commodities constitutes one of the basic operations of any trading enterprise. It refers to assurance of deliveries of articles desired by consumers in terms of type, amount, time, place and quality, including stock policy (Sławińska 2002). The purchasing process aims at ensuring efficiency of the sales process and contributes towards the achievement of profit, which is every company's basic goal. Therefore, the most important attributes of supply sources are:

- regularity of deliveries ensuring continuity of sale,
- compliance of deliveries with the order terms,
- profitability of the transaction,
- compliance with the accepted rules of the realisation of receivables.

The principal task in the purchasing process is adjusting the assortment offered to the needs of the target consumer groups, along with simultaneous efficient use of the resources owned. The entire activity of a retail outlet should be adjusted to the structure and size of the market demand, therefore the purchasing strategy is a reflection of a sales policy realised by the company (Sławińska 2002).

The next very important task faced by a trading company as it comes to purchases is the choice of supply sources. This choice should be based on careful consideration of the terms offered by the supplier, including, transportation and storage capacity, method of storage, capacity to ensure continuity of deliveries (Szczepankiewicz 2004). Commonly used criteria in the choice of supplier are (Sarjusz-Wolski and Skowronek 2000, Spyra 2008):

- price terms,
- product quality,
- timeliness, completeness and elasticity of deliveries,
- distance,
- terms and conditions of delivery,
- assortment offer,
- advisory assistance,
- supplier reputation,
- willingness to engage in long-term collaboration.

Sławińska (2002) also underlines other aspects of supplier choice which are of big significance to the organic food market, and referring to the specific ties between suppliers and retailers which are based on long-term contract and mutual confidence. These criteria are:

- supplier's involvement in former supply of goods,
- level of the delivery service offered, i.e. product quality, punctuality and terms,
- calculation of margins and costs,
- history of previous cooperation,
- supplier's willingness to engage in the realisation of the marketing concept of the outlet, in particular a specialist outlet.

Retailers' market behaviour mainly depends on the company size and range of its activity. One of the types of behaviours is the so-called 'active behaviour' standing for optimal use of external conditions and striving to their change. Actively operating traders create their own strategies to ensure that they are provided with desired assortment and high quality products. In turn, passive behaviour means that of the current terms of supply deliveries are used in an optimal way only through collaboration with deliverers (Szczepankiewicz 2004). On the organic food market, one may encounter both types of behaviour; however, the second type dominates. It should be noticed that in case of deliveries from low-trade farms which have not elaborated sales strategies, purchasers can on one hand get organic produce per individual order, but on the other hand, they might face problems with larger orders and the timeliness of deliveries. Simultaneously, while setting conditions for organic food supplies, one ought to remember that they should be feasible for smaller, low-trade organic farms.

On the organic food market, a retailer has two supply options: directly from a producer or through other trade enterprises. The research proves that the most frequent form of indirect purchase is purchase from wholesalers, particularly in case of processed products and less frequently dairy products, fruit and vegetables or eggs (Table 2). While buying fresh produce, specialist stores relied on farmers' deliveries. A processing plant is another important direct supply source. Short distribution channels are profitable for both the supplier and receiver, because the first group may apply higher prices in comparison to the ones offered for intermediaries, while for the receivers these prices are still lower.

Table 2. Supply sources of health food stores (%)

Product	Farm	Wholesaler	Processor	Farmers' market	Agents	Producers' group
Breads	43.4	38.2	25.0	–	9.2	3.0
Cereal products	27.8	83.5	16.5	–	17.7	–
Fruit	68.9	54.1	–	1.4	6.8	–
Vegetables	74.7	54.7	–	1.3	6.7	–
Fruit products	20.0	71.3	22.5	–	20.0	–
Vegetable products	25.0	72.5	21.3	–	20.0	–
Spices. Herbs	8.8	85.0	16.3	–	8.8	–
Oils	15.0	85.0	26.3		7.5	–
Dairy products	44.3	54.4	22.8	–	10.1	6.0
Eggs	86.1	27.8	2.5	1.3	5.1	–
Sausages	27.3	40.9	43.2	–	4.5	–
Meat	35.3	41.2	41.2	–	2.9	–
Tea. Coffee	–	94.9	11.4	–	15.2	–
Sweets	–	96.0	12.0	–	14.7	–

Source: authors' own research.

An important obstacle to the organic market growth is the fact that the wholesale chain has not developed sufficiently as yet. Organic wholesale is mainly carried out by local enterprises and only a few wholesalers deal with distribution of fresh produce. The specialist wholesalers are usually small, family companies, employing up to 10 people. Nevertheless, expanding the wholesale offer may, to a large degree, ensure a more comprehensive retail product assortment and contribute to the improvement of the accessibility of organic food. It is worth noticing that organic food has some attributes typical of innovative products, which may explain the fact that intermediaries and agents are not willing to take the risk related to their introduction to the market. Wholesalers, while reducing individual risks, limit the offer of organics.

Nevertheless, according to the survey, it is the diversity of product range that is the advantage in case of purchasing from wholesalers in comparison to farmers, who deliver only selected fresh produce. The possibility to place orders with wholesalers was recognised by respondents as very important. In the opinion of retailers, in the future wholesalers should engage more in gathering market information, conduct consumer studies, which may indirectly influence their turnover growth. According to retail sellers, the intermediaries' larger share in organic food promotion is recommended, particularly through collaboration with retail outlets and greater support given to promotional activities.

Farms were the second most important supply source for organic food stores. Their strongest side, as indicated by respondents, was the freshness of products, followed by the sense that the supplier is trustworthy. This speaks in favour of maintaining long-lasting cooperation ties with farmers, reflected in long-term contracts which ensure regular deliveries and the possibility to negotiate favourable price conditions.

Quite an important group of suppliers are organic produce processors, which include fruit and vegetable processing plants, cereal, bakeries and meat processing plants. The weakness of this kind of supply source is geographic dispersion of production units and thus the distance. In case of cereal processing plants the distance is shorter, as there are many of them in Poland, yet there are rather few meat processing plants and so only a scarce number of retail stores can purchase meat directly from them.

The research proves that agents are important as indirect suppliers of specialist stores. Operations carried out by agents are mostly: accepting orders, creating customer database, collaboration with clients to optimise the size and frequency of deliveries, and gathering information on demanded size and order content. They help retailers to keep up with the producers' offer, and offer favourable terms and conditions, as well as help in negotiations regarding delivery. Furthermore, agents take care of supply continuity and high quality of products. To be able to do that, they collaborate with producers who offer specialist training. They also help to establish trade contacts, as well as help retailers enter new market segments. The strong side of this form of distribution is the fact that agents generally charge lower commission in comparison to wholesale margins. As agents are in contact with a number of producers, they contribute to the widening and diversification of product range available on the market, which is of great significance to the organic market.

One of the most important obstacles to efficient organic food supply is the geographic dispersion of suppliers, which increases transportation costs. The main task of the transportation is to deliver products to the indicated place on time, in good condition and at low cost. On the organic food market the choice of transportation means is limited to motor transportation only, characterized by, on the one hand – routes flexibility, velocity, punctuality and on the other – high cost absorption capacity of transportation service (Barcik 2005).

The conducted research shows that the average distance from a specialist store to wholesaler amounted to 146 km. The mean distance to the agent was equal to 75 km, which results from the specificity of their business activity based on delivering products to the places where the demand mostly occurs. In turn, the distance to the processing plant totalled almost 170 km on average. Organic farms were located over 101 km away from retail outlets and in most cases the transportation costs were incurred by farmers. Longer distances between stores and suppliers result from insufficient development of the distribution chain and, at the same time, the necessity to ensure more diverse product assortment and so the need to seek suppliers. This was also confirmed by the average amount of suppliers per one organic food retailer, which is equal to 24.

Currently, with regard to the dominant position of retail networks, within distribution chains, integration becomes necessary, including vertical integration – between particular links of the chain and horizontal – between smaller units of the same kind. Relations between links in distribution undergo transformation in result of changes in the concentration of trade, which leads to increase of bargaining power of retail networks in negotiations with suppliers. Therefore, they gain more favourable financial terms than individual retail outlets. This, in turn, is reflected in price levels in both types of units. For this reason, smaller enterprises should enter into long-term contracts covering complex services, guaranteeing them favourable terms of purchase, due to which they have increased bargaining power. Nevertheless, retail organic food outlets generally do not cooperate with other units, and only 14.5% of the specialist stores made joint purchases and were able to enjoy better pricing conditions and lower transportation costs. Purchase of common stock is related to certain financial benefits; furthermore, it ensures favourable terms of realisation of delivery and good position in the negotiation process. The advantage of this form of supply is also an easier access to market information and lack of need for personal participation in the negotiations. Nonetheless, in case of purchasing from farms it is necessary to collaborate not in the area of purchase organisation only, but also in the field of competition, market, product range and other forms of cooperation.

As it comes to cooperation with a distribution chain, it is undertaken by very few retailers. Only every tenth organic food retailer collaborated with suppliers, mostly with farmers. This collaboration was based on a regular contract for product delivery. Such system of purchase ensures good quality of purchased goods, convenient terms of delivery and better adherence to the contract, which reduces the risk of discontinuity of supply (Szczepankiewicz 2004). Entering into a contract usually is the start of a close collaboration between supplier and recipient with regard to the strategy of distribution, proper product image, as well as allows to build long-term relations based on mutual loyalty and trust. Moreover, the efficiency of information channel increases, and a clear division of the responsibility, risk and costs is formed.

CONCLUSIONS

Regarding the large geographic dispersion of suppliers, to guarantee a comprehensive organic food offer requires engagement on the part of retailers and also, forces them to bear the relatively high transportation costs. This is of exceptional significance in specialist shops where a comprehensive offer of organics is essential. These outlets seek to ensure possibly the largest product range in order to maintain regular and loyal customers. A number of specialist outlets have expanded their offer in the recent years, adding to their selection fruit and vegetables, dairy products, and even meat and sausages. The last product group is of high consumer interest, due to the worsening quality of conventional meat and its products. This is a very good reason for retailers to increase their efforts in this area.

Nevertheless, the product range is to a large extent conditioned by the market accessibility of organic products. The main supply sources of health food stores are wholesalers, organic farmers and more seldom – processors and agents. One of the most significant problems of organic produce distribution is the fact that the number of specialist organic wholesalers and the range of their activity are not sufficient enough to ensure a comprehensive retail product offer. Furthermore, on the one hand, intermediaries very often try to minimize the risk of being stuck with unsold products, do not offer low rotating articles, and on the other, they narrow down the range of products requiring special storage to avoid higher operational costs. It is also worth mentioning that processing of meat and dairy have the smallest share in the entire organic food processing sector in Poland, which is reflected in the offer and prices across the whole distribution chain.

In order to improve the product offer, specialist shops should enter into a collaboration – horizontal and vertical – between the particular links of the sales channel e.g. by making joint purchases or cooperate with suppliers based on long-term contracts, offering them attractive price and payment terms.

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