Supermarket expansion in the South – a threat to small farmers?
English Summary

written by Marita Wiggerthale, commissioned by EED (Church Development Service), Germany

Internationalisation is one of the mega trends in retail trade. European and US supermarkets are keen on getting a big slice of the cake in emerging economies such as China, India and Russia. Once they manage to get a foot in the door, they would be able to benefit from their huge potential for growth.

The five biggest supermarkets increased their presence in foreign countries by 270% in the period 1980-2001, while the main expansion took off in the beginning of the 1990ies esp. in Latin America and Asia. 60-80% of the top five supermarkets in Latin America are owned by foreign retailers. At the same time the market share of supermarkets in the 12 biggest countries in Latin America amounts to 60% on average. Though, this is not so the case in Asia – Philippines 57%, Thailand 43%, Malaysia 31%, Indonesia 25% - and even less in Africa, where so far, the expansion of supermarkets is pretty a South African story. Taking into account factors like urbanisation, development and distribution of incomes and the share of women in labour market, scientists predict growth rates of 5-15% for supermarkets in middle income countries till 2015. A liberalisation of investment regimes would accelerate this development.

In the past, the main driving forces of supermarket penetration has been the liberalisation of trade and investment and the technological revolution in logistics and inventory management. Increases in foreign direct investment, often in the form of acquisitions and mergers, allowed the expansion of their presence in Latin America, East Asia and Eastern and Central Europe. At the same time, there was a considerable rise of foreign direct investment in the food industry in general. Investments increased from 743 Mio US$ in 1988 to 2,1 bn US$ in 1997 in Asia, and respectively, from 222 Mio US$ to 3,1 bn US$ in Latin America.

Another important factor pushing for the fast-paced development of supermarkets is the revolution in logistics technology and inventory management. In 1985, Wal-Mart was first to introduce the Electronic Data Interchange (EDI) in food retailing and increased its productivity by 40% vis-à-vis its competitors. The introduction of this technology allows the permanent control of the flow of goods. It copied the just-in-time concept that was first developed in the automobile industry. In 2005 Wal-Mart started of with a new technological innovation, the Radio-Frequency Identification (RFID). Wal-Mart imposed the introduction of RFID on 100 suppliers. RFID requires huge investments (100.000 US$ per shop, 400.000 US$ per store), which created a further push in the concentration process. A tag in form of a microchip is attached to each food item. This tag would allow the total traceability of a product, it documents information about the place of the farm, storing temperature, product characteristics, providing a map with whereabouts all along the value chain from field to dust bin of the consumer at home. There are no limits to the manifold applications of this new technology.

The expansion of supermarkets goes along with an increased concentration in the sector of food retailing. The top 30 supermarkets control 32,5% of world food sales (2005). The market share of the "Top 10" sums up to 21% in Latin America, 14,6% in Asia and 18 % in the Middle East and Africa (due to the predominance of South Africa). But in some developing countries concentration is already much higher. The supermarkets D&S and Cenosud in Chile have a market share of 58% and Uchumi and Nakumatt in Kenya account for a market share of 50%. In the UK, the top 5 supermarkets have a share of 56,3% (2004) in the grocery market, in Germany 70% (2005) and in France 68,4% (2004). If the concentration of the four biggest supermarket chains in a given country is higher than 40%, real competition is said to suffer. An abuse or misuse of purchase power is then very likely. Risks and costs are passed on upstream the chain to the suppliers. For instance, suppliers are forced to pay for accessing shelf space, retrospective changes of contractual terms, charges and transfer of costs to suppliers such as advertisement.

The expansion of supermarkets goes along with drastic changes in the food marketing structures at the global, regional and national level. The distinction between an export market with high standards and a domestic market with relatively lower standards becomes a matter of the past. Now, a "third market" emerged with the rise of supermarkets. The patterns of technological, organizational, and institutional changes are described as "four pillars": centralisation of procurement (per chain), appearance of very specialised wholesalers, introduction of a preferred supplier system and rise of quality and safety standards. These new dimensions are accompanied by the following trends: Development of "global hubs", e.g. Metro in China, Carrefour in Hong Kong; sourcing is done increasingly internationally; increased presence of regional TNCs; increased convergence between export markets and domestic markets with regard to actors and product standards; emergence of coalitions of companies for the determination of standards; increased use of business to business standards. The way these trends are translated in different countries varies quite a lot. The selection of suppliers, the choice of distribution centre locations and the design of distribution networks depends on factors such as purchasing power, proximity to growth markets, existing distribution net, site-specific production conditions and structure, national legislation for business licenses, market behaviour and marketing strategy of competitors, growth perspectives.

The business model of supermarkets, focused on maximising returns for shareholders and keeping costs competitively low for consumers, demands increasing flexibility through 'just-in-time' delivery. At the same time, it goes along with tighter control over inputs and standards and ever-lower prices for inputs and retailed food. These labour-saving and capital-intensive innovations (self-service, mass distribution, cash registers) affect employment negatively, and in particular the coping and survival strategies of the poor (e.g. street vendors). The development of "modern retail" is directly linked to a system of mass production. The accompanying industrialisation along the whole food value chain poses an enormous challenge to small holder agriculture and family farming, presenting a threat rather than an opportunity. Technological packages are imposed on farmers and suppliers as a condition by supermarkets and is sometimes done in cooperation with the agrochemical and seeds industry. Often, with far reaching implications for the environment. This also holds true for the implicit promotion of the model of an industrialised agriculture . Costs and risks are externalised and passed on to suppliers.

The expansion of supermarkets brings about changes for the different actors in the value chain. Among others, street vendors, agricultural workers, consumers and small farmers are those affected the most. The main focus of our report lies on the analysis of the effects on small farmers. But some findings for other groups affected are briefly outlined in our study. According to the survey in Vietnam, supermarkets create less employment, both per unit of area and by traded food volume, in comparison to wetmarkets and street vendors. Street vending and informal markets mainly employ poor people. They would carry the biggest burden of being negatively affected by the expansion of supermarkets. The example of China is a case in point showing how price pressure exercised by Wal-Mart translates directly into longer working hours and lower wages for Chinese workers. There are even cases reported where the set up of a workers' council is impeded or forbidden (a.o. Metro, Lidl). Also, the "banana price-war" in UK's supermarkets demonstrates the negative side of downward pressure on prices. In Costa Rica plantation workers' daily wages have fallen to poverty levels - from about $12-15 in 2000 to $7-8 in 2003.

At the same time, it is assumed that consumers benefit from cheaper food prices in supermarkets. However, empirical evidence shows that lower prices for producers do not always translate into lower prices for consumers. To the contrary, the gap between both sides of the coin is often increasing. This is the case for milk in Bolivia, Ecuador, Chile and Scotland and for clementines and green pepper in Spain. In the case of Chile, the dairy industry has even increased the prices for milk in the poorer districts of the city. This was done to compensate for the income losses they faced which occurred , because of the price pressure imposed by supermarkets in middle and upper class districts. As supermarkets are situated in rich districts of the city, poor people implicitly subsidise the milk prices of rich people.

With regard to the analysis of the effects on small farmers, it is necessary to look at the evolution of producer prices, their access to supermarkets and the erosion of traditional markets, the behaviour of the food processing industry and the development of contract or estate farming.

The empirical evidence with regard to the prices paid to producers is a mixed one. It depends among others on the supply side for specific product, as well as on the degree of market concentration, especially the buying power, on price strategy and political positions (e.g. market opening, increase of oversupply) of the food industry and of supermarkets. The production costs in the fresh produce sector are often higher for those farmers delivering to supermarkets than for farmers selling on traditional markets. This is due to many factors: Higher costs arise from increasing use of chemicals and fertilizer (twice the quantity as in average as found out in some case studies) or from irrigation. On the other hand, the example of producers in Kenya shows that the fresh produce sector can provide higher revenue and income because of higher yields per ha the supermarket-channel producers had in one case study . But this capital and input-intensive agricultural production model pretty much excludes small farmers with few or no resources. Also, external costs for the environment are not taken into account.

There is a tendency that the prices, which supermarkets pay to producers, are diminishing the higher the market share of the company is. In Nicaragua, the biggest supermarket “CSU” (belongs to CAHRCO, joint venture with Ahold) pays 0,20 UUS$/kg for tomatoes, while “La Colonia” (second biggest supermarket) pays 0,26US$/kg . CSU purchases its tomatoes from 43 preferred suppliers via Hortifruti (regional TNC operating in Costa Rica, Nicaragua and Honduras), whereas La Colonia collaborates with two tradtional wholesalers, who all buy their tomatoes from their 26 preferred suppliers. However, those tomatoes that do not meet the standard set by La Colonia are sold on the traditional wholesale market. The example of kale producers in Kenya shows, that producers supplying supermarkets can get a higher price, but prices paid to producers can equally be below (CSU), above (La Colonia) or as high as in the wholesale market.

In the food processing sector, the final price paid to farmers depends on the pricing policy of supermarkets and upon the pricing policy of the processors. In Chile the supermarkets “D&S” and “Censosud” increased their share from 32,5% in 1996 to 58% in 2004. The biggest dairy companies – Colun, Soprole and Nestlé – have a market share of 60,9% for diary products, and of even 100 % on the regional level. Taking the year 1990 as a reference, prices for producers haven fallen by 14%, whereas wholesale prices for the dairy industry increased by 23%. The price development also depends very much on the level of tariff protection. The dairy industry in Ecuador put pressure on the administration to increase imports from the US and Europe. The consequence of this was further price pressure for farmers on the domestic market. In general terms, there is very little analysis about the relation between oversupply and bargaining power of supermarkets. This is also true for products which are rejected by supermarkets and then sold on traditional markets. Analysis of the pricing mechanism on the side of the processing sector is very limited for markets where power of supermarkets prevails.

Access to domestic market is of utmost importance to small farmers. Changes in domestic marketing structures are therefore crucial to them. According to estimations, it can be concluded that leading supermarkets do not purchase about 40-50% from the domestic wholesale market anymore. Supermarket’s procurement officers in the fresh fruit and vegetables sector pursue the strategies “beat Wal-Mart” on the one hand, and at the same time also “beat the wet markets (market in the open)”. In Malaysia for example supermarkets try to create an atmosphere in displaying their produce as on the wet market, in order to attract new customers.

Under pressure of competition from supermarkets and municipal governments, some wet markets have undertaken major efforts to survive choosing to fight back. In Chile and Malaysia, for example, the wet markets are upgrading their facilities and procurement systems. Some have adopted supermarket’s approach in hygiene practices and shifted to collective, large-volume procurement arrangements.

The expansion of supermarkets goes along with a decreasing market share of food traded in the traditional wholesale markets. In Ecuador fresh fruit and vegetables trading is taking place less and less on traditional markets. The marketing structures in Korea have changed considerably since 1993. The market share of traditional markets in fresh fruit and vegetables decreased from 42% in 1998 to 29,5% in 2002. In the Philippines, 80% of fresh produce is still sold in wet markets but Filipino consumers are rapidly becoming conscious about safety and move to supermarkets. In Thailand, the emergence of hypermarkets has led the wholesale market to improve its efficiency. Here, the traditional market channels have started using new technologies to keep up with competition. Small farmers are still dependent on the wholesale market for marketing as their products do not meet the quality standards required by supermarkets. In Ecuador, for example, the biggest supermarket “SLF” now purchases its potatoes mainly from big producers and no more from the wholesale market with its lower standards because of the high quality standards it has introduced. The future development and adaptation of the wholesale market will therefore be crucial to small farmers.

EurepGap, the main international standard in the fresh produce sector, was developed in 1997 by the European-Retailer-Produce Group. According to the FAO it seems unlikely that small farmers will be able to comply with EurepGap-standards. For instance, they have difficulties to guarantee safe water supply, provide toilets and hand washing facilities for workers, construct pack houses with cement floors and carrying out documentation systems, which the "traceability requirements" obliges them to introduce . This in part is confirmed by an OECD survey. Half of the 20 farmers organisations interviewed found that the compliance with standards is too difficult for small farmers and cooperatives. Also, problematic is that the formulation of these private standards is “corporate led”. Farmers, consumers, environmentalists, small shops and traders do not have a say therein.

50-70% of the supermarket sales derive from processed food. Therefore the food industry is an important supplier to supermarkets and buyer from farmers. The market share of the four largest suppliers of packaged food is only 10,3%. However, the top 100 food companies are controlling 2/3 of the global market, and around 1/3 is said to be intra-firm trade (trade with goods). Food processors are increasingly confronted with “private brands” of supermarkets, which do have a world market share of 12% in packaged food. The demand for large quantities, high quality und safety, traceability, continuous supply as well as unfair competition practices by supermarkets make it difficult for small food processing industries in developing countries and newcomers to develop and to supply supermarkets at home and abroad. In light of growing competition exercised with the emergence of supermarket power, food processors respond with a mix of strategies: expansion of markets, increase efficiency and integrated value chains, development of new healthy local food with higher quality and higher expenditures for public relations and increase of sales. Many of those strategies can have negative effects on small farmers.

One other aspect concerning small farmers is the fact of corporate/estate or contract farming. Contract farming is expanding rapidly, especially in the export sector. It could have positive and negative effects. Of benefit to the farmer could be: a secured outlet at fixed or negotiated prices, and, potentially the improved capacity and production methods to comply with food standards. However, studies praising the positive effects of contract farming fall short in their analysis as they do not look at the “side-effects”, i.e. export companies and small farmers being driven out of business, low labour standards, harmful environmental effects, lack of distribution of profit margins, effects of lower prices because of increased purchase power, effects on domestic markets. Experiences show that companies only enter into contracting small farmers if they do not have any other choice, if they consider farmers willing to “learn” and if farmers have a professional attitude and offer real cost savings. It needs to be kept in mind that contract relations are never organised within a power vacuum. Small farmers face the risk of being forced to accept relatively low prices and to use the inputs imposed on them by the company. Agrochemical companies do have an interest in intensive agriculture with high inputs and high outputs.

Recalling the business model of supermarkets, the focus is on on maximising returns for shareholders, demanding increasing flexibility through ‘just-in-time’ delivery, tighter control over inputs and safety and quality standards and ever-lower prices. It becomes obvious that political measures cannot be limited to the compliance with standards or access to resources. Any discussion about supermarkets has to start with the question how a social and environmentally sustainable food system would look like. A whole range of measures is necessary to deal with the expansion of supermarkets:

- restore or maintain the much needed **policy space** for agriculture and trade: Important policy tools, such as extension services, marketing boards, price support, subsidies, investment regulation and performance requirements were abolished under pressure by WTO, IMF/Worldbank and FTAs

- **slow down of supermarket expansion**: stop investment liberalisation in the retail sector (services), control of market entry of supermarkets (see Malaysian Committee on Wholesale and Retail Trade), zoning regulations (see Thailand), business licences etc.
- **limit the purchasing power of supermarkets**: reform or “modernise” competition laws.
- provide targeted and comprehensive **support for small farmers**: In light of about 388 Mio. small farmers in developing countries and the obvious limitations of development cooperation, there is a need to reflect about the introduction of new governmental instruments aiming at the enhancement and promotion of food marketing.
- involve all actors concerned in the **formulation of standards**: One might think of the role of governments in defining process criteria for the formulation of standards. Impact assessments of already existing standards on small farmers and the environment are needed.
- improve access to market **information and transparency**: Monitoring of prices by the state and extension of information to the small producers is necessary. Consumers should get better access to information about origin, production method and content of the food offered.

Further analysis is needed especially with regard to sustainability in farming and the gender specific effects of supermarket expansion, that is gender specific coping and survival strategies and the way export or “supermarket-production” impacts on labour division within the household or on food security. Farmers are price takers and do have little bargaining power in the value chain. At the same time small farmers form the biggest group of people suffering from poverty and hunger. National, regional and international policies therefore need to take into account their needs and seek a better balance in the value chain.