

11 VOLUNTARY MARKETING INSTITUTIONS IN FOOD MARKETING SYSTEMS

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1 INTRODUCTION

Food marketing in Western countries has evolved from simple exchange processes at local markets into complex food marketing systems. Food marketing has also changed in other countries as a result of trends in consumer behaviour, new marketing methods, and a changing economic order.

Food marketing takes place within a specific network of institutions. In open markets the structure of this network is determined by factors related to marketing effectiveness, efficiency and equity. Occasionally enterprises have voluntarily established common marketing institutions, such as cooperatives, in order to improve marketing performance. Sometimes marketing institutions, for instance marketing boards, are imposed on a food marketing system by a government. In some countries the government enhances the establishment of common marketing institutions through subsidies or tax facilities.

This paper addresses voluntary marketing institutions established by enterprises of their own free will. We define a voluntary marketing institution (VMI) as a marketing institution which is voluntarily established by enterprises, and whose services are used by enterprises at their own discretion within the bounds of the formal relationship between enterprise and VMI. VMIs traditionally play an important role in Western food marketing systems. Examples are farmers' cooperatives, wholesaler sponsored voluntary chains and franchise organisations. The role of VMIs is changing as a result of changing markets and marketing strategies.

Marketing institutions have been studied at length in the agricultural marketing literature. Marketing textbooks (e.g. Kohls, Uhl, 1990) offer an in depth treatment of marketing boards, marketing orders/agreements and cooperatives. In particular marketing boards and cooperatives have been investigated extensively. Marketing boards have been studied regularly (e.g. Morley, 1967; Hoos (ed.), 1979; Forbes, 1982; Meulenberg, 1986; Veeman, 1997; Wallace and Schroder, 1997). There is a continuous stream of research on farmers' cooperatives (e.g. Cobia (ed.), 1989; Nilsson and Van Dijk (ed.), 1997; Van Bekkum and Van Dijk (ed.), 1997). This paper takes a more general look at these marketing institutions by focusing on VMIs as a class of marketing institutions of which marketing boards and cooperatives are important members. It is not our intention to offer an up-to-date picture of VMIs. Rather we analyse general characteristics of VMIs and present structural

developments of VMIs as a result of a changing marketing environment and marketing strategies. In particular we intend to contribute to the understanding of VMIs by: (a) reviewing theories and research results from economics and marketing; (b) proposing a classification scheme of VMIs and a set of criteria to assess the viability of VMIs; (c) analysing the evolution of VMIs in western food markets. The proposed classification scheme and assessment criteria are also applicable to VMIs in non-western countries. Their relevance will increase with market liberalisation, which will enhance a further shift from public to voluntary marketing institutions.

Our paper is organised as follows. First, a concise description of VMIs in western food markets is given. Second, concepts and findings of economic theory and marketing relevant to VMIs are reviewed. A classification scheme of VMIs and a framework for assessing the viability of VMIs are proposed. Next, main trends in the Western marketing environment and in the enterprises of food marketing systems are described. The impact of these trends on VMIs in Western food markets is analysed. Some conclusions close the paper.

2 VOLUNTARY MARKETING INSTITUTIONS IN WESTERN MARKETS, A CONCISE DESCRIPTION¹

VMIs are operating in many food marketing systems. They perform specific marketing functions, such as price discovery, or even perform the complete marketing operation for an agricultural/food product.

Cooperative auctions contribute to price discovery in agricultural markets. Dutch auctions (auction starts at an offer price higher than any bidder is willing to pay, which is lowered until a bidder accepts the offer) are used in markets for fresh horticultural products: flowers, fruit and vegetables and fish. English auctions (auctions start at a low offer price; bids are publicly made; the bidder who makes the highest bid receives the goods) are used among other things to sell cattle. Auctions also fulfil an important logistical function by concentrating physical supply and demand.

Product differentiation and relationship-marketing diminish opportunities for selling through auctions, since in selling through an auction no special relationship between supplier and buyer can be developed. On the other hand, better communication facilities increase the access to the auction process, and therefore the opportunity for auctioning products at an international scale.

Futures markets, sometimes established with the support of enterprises operating in the relevant agricultural sector, have been popular in the US for a long time as an institution for hedging price risks for commodities such as corn, soybeans and wheat. In Europe commodity futures exchanges are still of limited importance, but various developments are stimulating the interest in commodity futures trading:

- the trend towards big and specialised farms which operate in more open markets and receive less price support, e.g. by the CAP (Common Agricultural Policy) of the EU;
- bigger food companies, which are concerned about price volatility of their agricultural inputs.

In many European countries, such as France, Germany, Hungary, Netherlands, Spain and the United Kingdom, commodity futures markets have been started, or will start soon.

Various marketing institutions market agricultural products on behalf of participating farmers. Important institutions in this respect are agricultural cooperatives and marketing boards, see Table 11.1.

Table 11.1 Market shares of agricultural co-operatives in the EU¹⁾

Market shares(%)	Dairy	Fruit & vegetables	Meat	Farm inputs	Credit	Grain
Belgium	50	70-90	20-30			-
Denmark	93	20-25	66-93	64-59		87
Germany	55-60	60	30	50-60	-	-
Greece	20	12-51	5-30			49
Spain	35	15-40	20	-	-	20
France	49	35-50	27-88	50-60	-	75
Ireland	100	-	30-70	70		69
Italy	38	41	10-15	15	-	15
Luxembourg	80	-	25-30	75-95	-	70
Netherlands	70-96	35	40-50	84		
Austria	90	-	50	-	-	60
Portugal	83-90	35	-	-	-	-
Finland	94	-	68	40-60	34	-
Sweden	99	60	79-81	75	-	75
U.K.	98	35-45	± 20	20-25	-	20

¹⁾ Source: Bekkum, O.F. van, and G. van Dijk (eds.), 1997, p.29.

Agricultural cooperatives started out as organisations, which tried to improve farmers' product prices by increasing the bargaining power of farmers, or through better product quality. They are defined as user-owned and user-controlled businesses that distribute benefits on the basis of use (Barton, 1989). Three concepts distinguish cooperatives from other businesses: a) the user-owner principle: persons who own and finance the cooperative are those who use it, b) the user-control principle: control of the cooperative is by those who use the cooperative and c) the user-benefits principle: benefits of the cooperative are distributed to its users on the basis of their use. Cropp and Engelsbe (1989) indicate potential classifications of cooperatives based on functions performed, structural arrangements, organisational or financial structure.

The shift towards market orientation in food marketing requires cooperatives to adopt a customer oriented marketing policy. A cornerstone of such a policy is an agricultural supply of farmer-members which fits well with the marketing strategy of the cooperative processing/marketing company. Farmers' willingness to invest in the cooperative, in particular in its markets and R&D, is also essential for such a policy.

Adoption of modern marketing and management procedures by cooperatives influences the cooperative structure. The following organisational changes, partly due to the shift toward market orientation, can be observed:

- size of enterprise is increasing,
- quality of management is improving and the rights and responsibilities of top management are better defined,
- special financial structures are developed to generate the necessary risk-bearing capital for the cooperative enterprise,
- some cooperatives have transformed their enterprises into limited companies, whose shares, at least a majority of shares, are in the hands of the cooperative union/farmer-members.

The above developments enhance a more rational and less emotional relationship between farmers, in particular young and modern farmers, and their cooperative.

In various countries agricultural marketing boards and commodity boards contribute to the marketing of food and agricultural products of a sector. Marketing boards which are responsible for the total marketing operation of an agricultural/food product are the exception rather than the rule in Western countries. However, promotional boards which support the marketing of generic food products have been set up in many European countries. Sopexa in France and CMA in Germany are examples. Product differentiation and large size of enterprises stimulate marketing efforts for the brand of individual enterprises at the cost of marketing efforts for the generic product of a sector. On the other hand, new marketing problems emerge for some food products (e.g. a poor image of meat) which have to be tackled by marketing activities of the sector.

3 THEORIES AND RESEARCH RESULTS FROM ECONOMICS AND MARKETING

Voluntary marketing institutions (VMIs) perform functions and coordinate processes in food marketing systems. Their role in western food markets is changing. Theories and research results from economics and marketing are instrumental in understanding this changing role. In this section some important theories and research results are briefly reviewed from the perspective of their relevance to VMIs.

3.1 CONTRIBUTIONS FROM INSTITUTIONAL ECONOMICS

Economic theory defines institutions in different ways. Schotter (1994, p.5, ff.) distinguishes the following three meanings of institutions: "...conventions, sets of rules that constrain the behavior of social agents in particular situations, and an organization -usually a large, well-established organization". Coriat and Dosi give a similar classification (1998, p.6): ".. formal organizations, patterns of behaviours that are collectively shared, negative norms and constraints". VMIs are either formal, well established, organisations or sets of rules, norms or constraints.

For the analysis of VMIs it is useful to make a distinction between institutions dealing with the institutional environment (rules of the game) and institutions of governance (the play of the game), since the evolution of both types of institutions

differs substantially in food marketing. The scheme of social analysis in four levels proposed by Williamson (1998, p.26) also seems helpful to understand different types of VMIs: 1) the social embeddedness level, where the norms, customs, mores, traditions, etc. are located. 2) the institutional environment..., the rules of the game within which economic activity is organised, the polity, judiciary, and bureaucracy of government 3) the institutions of governance - second order economising applies: get the governance structures (markets, hybrids, firms, bureaus) right 4) from discrete structural to marginal analysis... the level with which neo-classical economics and, more recently, agency theory has been concerned. Williamson argues that New Institutional Economics is concerned in particular with levels 2 and 3 of his scheme. The analysis of VMIs is also in particular concerned with the levels 2 and 3, of Williamson's scheme of social analysis: the institutional environment and the institutions of governance.

According to Coriat and Dosi (1998, p.6, ff.): "...institutions not only 'parameterize' and 'constrain', but, given any one environment, also shape the 'visions of the world', the interaction networks, the behavioural patterns, and, ultimately, the very identity of the agents." They make a distinction between weak and strong institutionalism: "...ranging from weak forms retaining a lot of the canonic microfoundations to strong forms wherein institutions have much more life of their own and also much more influence on what microentities think and do." The former type of institutionalism is characterised by: "(1) Role of institution; parameterize system variables; contain menu of strategies. (2) "Primitives" of the theory:rational self-seeking agents; institutions as derived entities. (3) Mechanisms of institution-formulation: Mainly intentional, "constitutional" processes, (4) Efficiency properties: Institutions perform useful coordinating and governance functions;...". Our approach to VMIs is, in the terminology of Coriat and Dosi (op cit. p.8), primarily "weak" institutionalism, since enterprises in Western food marketing systems evaluate their participation/cooperation with a VMI increasingly on the basis of rational criteria.

Theories focusing on rules and organisational structures at macro-level may be useful in the analysis of VMIs. An example is the discussion of corporatism by Visser and Hemerijck (1997, p.65, ff.): "Corporatist governance has two analytically distinct properties: the degree of institutional integration of organized interests into the framework of public policy formation; and the degree of societal support for corporatist policies offered by organized interests." The authors classify corporatist institutional change on the basis of these two criteria. The analytical scheme for analysing corporatism by Visser and Hemerijck (op cit.) seems helpful to characterise a VMI and to derive warranted strategies.

Discussions about market- and non market regimes also offer food for thought about VMI policies. Wolf (1993, p.87) summarises market failures as externalities and public goods, increasing returns, market imperfections, distributional inequity (income and wealth). He describes non-market failures as disjunction between costs and revenues, redundant and rising costs, internalities and organisational goals, derived externalities, distributional inequity (power and privilege). The analysis of VMIs can profit from economic theories about the failures of market and non-market institutions at the national/sector level. In particular these theories may be helpful in understanding the influence of externalities of production and marketing

on new opportunities for VMIs, and the influence of internalities and organisational goals, as well as distributional inequity (power and privilege) on policies and management of VMIs.

3.2 CONTRIBUTIONS FROM INDUSTRIAL ECONOMICS.

A centre-piece of industrial economics theory is the well known transaction cost economics theory of Williamson. This theory regards the firm as a governance structure. It is based on (e.g. Williamson, 1989, 1998) the behavioural assumptions of bounded rationality and opportunism and considers frequency, uncertainty and asset specificity to be principal dimensions of transactions. Williamson (e.g. 1989, p.146; 1998, p.37, ff.) proposes a scheme for the analysis of contracting, which starts out by determining the degree of asset specificity. In the case of asset specificity safeguards might be provided, such as penalties to prevent a breach of the contract, or the transactions might be organised under unified ownership. Information is considered a prime source of transaction costs, in particular as a result of specialisation in production and marketing (Holmstrom and Tirole, 1989, p.64).

Nooteboom (1998, p.172) argues that the transaction costs economics theory of Williamson is not complete, because it is comparative, static and not dynamic: it does not take learning into account. In order to integrate the outlooks of transaction cost economics and IMP (Industrial Marketing and Purchasing, Hakansson, 1982) Nooteboom makes a distinction between egotistic and non-egotistic sources for cooperation both at the macro- and micro level, see Figure 11.1.

	Macro	Micro
Egotistic	coercion or fear of sanctions from authority (god, law)	material advantage or "interest"
Non-egotistic	ethics: values/norms of proper conduct	bonds of friendship, kinship or empathy

Figure 11.1 Sources of cooperation between companies according to Nooteboom
 Source: Nooteboom (1998, p.174).

He argues that while the New Institutional transaction cost economics focuses on the egotistic sources, Neo-Institutionalism aims at incorporating the non-egotistic sources.

In a review of transaction costs analysis in marketing research Rindfleisch and Heide (1997) conclude that firms seek to minimise transaction costs through vertical integration when faced with the need for safeguarding specific assets invested in an exchange relationship. They conclude also that the role of governance as a means of adapting to uncertain environments receives mixed support. Concepts and theories of transaction cost economics contribute to our understanding of VMIs (see for instance: Zylbersztajn, 1996). Transaction costs influence enterprises' decision about whether or not to establish a VMI. Transaction cost economics also improves our understanding of the type of relationship between enterprises and their VMI. Asset specificity and information dissemination are important in this respect. "Non

egotistic" factors seem relevant to VMIs which have strong social/emotional links with participating enterprises.

Integration is associated with increasing levels of asset specificity, difficulty of performance evaluation and uncertainty (e.g. Anderson and Schmittlein, 1984; Lilien, 1979). Other reasons for vertical integration include ownership and complete control over neighbouring stages of production or distribution (e.g. Porter, 1980), the creation of barriers to entry for competitors (Bain, 1956), and the acquisition of private information (Perry, 1989, p.208).

Between vertical integration and anonymous spot market exchange there is a great variety of vertical "controls" between firms at different stages of the marketing channel. For example, vertical contractual relations, such as quantity dependent pricing, ties, royalties, requirement contracts and exclusive dealing, resale customer restraints, resale price restraints (Katz, 1989, p.656, ff.) are used to improve profits in vertical marketing relationships. Concepts and theories on integration and vertical contractual relations are relevant to enterprises' decision making about outsourcing functions to a VMI.

Models have been developed which are concerned with aspects of the relationship between a principal and his agent, e.g. models on moral hazard, incentives to agents and monitoring of agents (Holmstrom and Tirole, 1989, p.67). Models have also been proposed which search for a wage structure that stimulates agents' efforts. Free-rider problems and the division of proceeds from a joint output have been investigated. Principal-agent models, such as those concerned with moral hazard, giving incentives to agents and monitoring agents, are instrumental in analysing the relationship between VMIs and participating enterprises.

Reputation has been recognised as an important asset of enterprises, in particular when it is impossible or too expensive to sign comprehensive contracts (Holmstrom and Tirole, 1989, p.76, ff.). In that case reputation offers an implicit promise for a fair fulfilment of a contract when unexpected events occur that are not covered by contract. Since mutual trust is extremely important for the relationship between a VMI and its target enterprises, the reputation of a VMI is a valuable asset for a successful relationship with the related enterprises.

3.3 CONTRIBUTIONS FROM MARKETING THEORIES.

The role of marketing institutions in the channel has been a central topic of marketing theory. Meulenberg (1997) reviewed major contributions from marketing theory in this field, using the classification of marketing schools by Sheth et al. (1988).

It is not surprising that in particular the institutional school, focusing on "...the organizations that actually perform the functions required to move the goods from the producer to the consumer" (Sheth et al., 1988, p.74), contributes in particular to the theory of marketing institutions. Many scholars have analysed marketing channels and marketing institutions from the efficiency point of view (Alderson, 1954; Stigler, 1951; Bucklin, 1965, 1970). In fact, in the case of perfect competition, costs will ultimately determine channel structure and consequently the institutional set up. In other market structures, effectiveness and/or equity are also important

criteria for building a structure of marketing institutions. Various studies emphasising marketing efficiency as a criterion for the channel structure have also included effectiveness as a criterion (e.g. Bucklin, 1965; Bucklin, 1966). Models from management science (see for instance Lilien et al., 1992, p.415, ff.; Stern and El Ansary, 1992, p.304, ff.) analyse channel structure by focusing on the relationship between a profit maximising manufacturer and a retailer under different assumptions about the degree of integration, the type of market structure, the profit function of the manufacturer and the profit sharing arrangement.

The organisational dynamics school of thought in marketing, which analyses marketing channels from the behavioural point of view, has also contributed to the understanding of marketing institutions. Initiated by Stern (1969), marketing channels have been analysed on the basis of power (e.g. Brown, et al., 1995), conflict and satisfaction in the relationship between channel partners. Frameworks for the analysis of marketing channels have been proposed (Stern and Reve, 1980). Marketing channels have been classified on the basis of the relationships in the channel, for example vertical marketing systems are classified in administered, contractual and corporate systems (Stern and El Ansary, 1992). Transaction cost economics has been widely used to understand marketing channels (Rindfleisch and Heide, 1997).

The coordination between marketing institutions in a marketing channel has been analysed (Celly and Frazier, 1996). Much attention is paid to franchising, for example its motivation by the "resource constraints" or by the "incentive" argument (Lafontaine and Kaufmann, 1994). Factors determining continuity in channel relationships (Anderson and Weitz, 1989), and trust in marketing channels (Geyskens, et al., 1998; Kumar, et al., 1995) have been investigated. Theories on marketing channels and marketing institutions are by definition relevant to VMIs. They offer in particular insights into the process of establishing a VMI and the relationship of VMIs with participating enterprises.

4 CRITERIA FOR ANALYSING VOLUNTARY MARKETING INSTITUTIONS

4.1 VOLUNTARY MARKETING INSTITUTIONS, A CLASSIFICATION SCHEME

VMIs take an intermediate position on the spectrum of marketing institutions:

Government-owned marketing institution --- Government controlled marketing institution --- Government-supported common marketing institution --- Voluntary marketing institution(VMI) --- Individual company. They can be classified by criteria related to organisation and policy. On the basis of the present types of VMIs we suggest the following:

organisational criteria

- horizontal versus vertical VMI, e.g. farmers marketing cooperative versus a wholesaler sponsored voluntary chain;
- hierarchy of VMIs, one-, two-..multilayer structure, e.g. a primary marketing cooperative set up by farmers versus a secondary national marketing cooperative established by regional cooperatives;

- purely voluntary versus hybrid (voluntary and public) VMI, e.g. a cooperative established by farmers versus a commodity board based on public law but established by majority vote of the representatives of an industry;

policy related criteria

- permanent versus temporary VMI, e.g. farmers' cooperative (intentionally permanent) versus a temporary marketing organisation set up by a group of enterprises to explore a new market.
- strength of the link between a VMI and its target enterprises, e.g. a relatively loose relationship between retailers and wholesalers in a wholesaler sponsored voluntary chain versus a strict relationship in a franchise organisation.
- degree of VMI-involvement in marketing a product, e.g. marketing cooperatives being in charge of the complete marketing operation of a product versus a promotional board taking responsibility for promoting the generic product only.

These classification criteria seem helpful in understanding the role of a VMI in a food marketing system. However, they are descriptive and not instrumental for assessing the viability of a VMI. In the following section we propose criteria for assessing VMIs.

4.2 CRITERIA FOR THE VIABILITY OF A VOLUNTARY MARKETING INSTITUTION

Enterprises can transfer their complete marketing operation to a VMI, or specific aspects of the marketing operation only, such as aspects related to product, price, information/communication, or distribution. Decision-making on that matter can use concepts and theories from economics and marketing, as reviewed in section 3. It may also profit from assessing the viability of a VMI according to the following criteria. We distinguish necessary and sufficient conditions for the viability of a VMI (Meulenberg, 1986). Necessary conditions are conditions to be fulfilled in order to make a VMI meaningful. In addition to the necessary conditions a number of sufficient conditions, not necessarily all, have to be met in order to make a VMI viable.

Necessary conditions for the viability of a VMI.

Condition 1: Products/needs of enterprises served by a VMI are homogeneous.

VMIs are viable only if they offer products and services which suit the participating enterprises, e.g. the members of a cooperative. Consequently, enterprises served by a VMI should be homogeneous with respect to the marketing object of a VMI, say the product of the enterprises or specific product attributes only, such as nutritional aspects. This condition will be met in many agricultural markets, but is increasingly a problem in food markets because of product differentiation. Nevertheless, differentiated food products may also be homogeneous for specific attributes, such as the environmental friendliness or healthiness of a product, at least from the consumers' point of view.

Condition 2: There are market opportunities and/or threats for the "generic" product of enterprises related to a VMI.

Without opportunities and/or threats for the generic product there is no reason for enterprises to join a VMI. In food marketing systems this condition seems almost

always to be fulfilled; markets for many generic products, such as bread, poultry meat, beef, etc., are dynamic.

Condition 3: Marketing by a VMI is superior to marketing by individual enterprises on either efficiency, effectiveness, or equity.

Marketing is a basic function of every enterprise. However, an enterprise may transfer the marketing function fully or partially to a VMI if this transfer increases its profits. It requires superior marketing by a VMI either on efficiency (costs), effectiveness (sales) or equity (share of profit).

These "necessary" conditions for viability of VMIs are often met in food marketing systems because of product-similarity between enterprises and the importance of small and medium sized enterprises.

Sufficient conditions for the viability of a VMI.

Condition 1: Enterprises prefer to respond jointly instead of individually to market opportunities and threats.

In a free market economy an enterprise is responsible for marketing its products and services. Whether an enterprise will outsource marketing functions to a VMI depends among other things on its size and the related economies of scale and scope in marketing. However, even when a joint marketing operation through a VMI could be more effective, an enterprise might prefer its own approach for reasons of independence and flexibility. For instance, a food company might prefer to carry an own environmentally friendly brand instead of using an industry-wide environmental label.

Condition 2: The product marketed by a VMI is important for the income formation of the related enterprises.

An enterprise will not be motivated to join a VMI if the product in question only contributes to a minor extent to its income.

Condition 3: Free rider problems are negligible.

Enterprises hesitate to join a VMI, e.g. a promotional board, if non-participants will profit from that VMI too.

5 ENVIRONMENTAL CHANGES RELEVANT TO VOLUNTARY MARKETING INSTITUTIONS

Developments of VMIs in Western food marketing systems, such as marketing cooperatives and marketing boards, depend on trends in the environment of western food marketing systems. We will highlight the main trends and their consequences for food marketing systems.

Economic environment. In spite of steadily increasing income levels in Western countries, the per capita consumption of food (in volume) remains stable. Income elasticities of the demand for various food products are small. Income elasticities of the demand for food quality and services are higher. The tendency towards a more skewed income distribution offers opportunities for market segmentation and product differentiation in many western countries.

Economic developments suggest that farmers and food enterprises should reinforce their market position by increasing added value and by focusing on specific target groups.

Demographic environment. The EU population is expected to increase only slightly in the period 1995 to 2000 (from 371.5 million to 375.0 million) and is even projected to decrease in the first half of the next century. On the other hand the global population is still expected to grow substantially. People in western countries are living longer. However, the food consumption pattern of old people does not differ substantially from that of the rest, except for a lower and nutrient poorer food intake, lower energy need and more need for services (Senauer, et al., 1991). The trend towards smaller families, in which both partners have a job, stimulates the demand for convenience foods and "away from home" consumption. These demographic trends also stimulate marketing strategies of increased added value (services) to the product and of focusing on specific target groups.

Social environment. Trends in values and lifestyles have a great impact on food marketing. From the well-known list of trends proposed by Popcorn (1992), "fantasy adventure, save our society, small indulgence and staying alive" seem particularly relevant to food consumption. New values, such as "self fulfilment ethic", "better quality of life", and "work to live" (Plummer, as quoted by Engel, et al., 1995, p.627) influence food consumption. Concern about the environment and about animal welfare affect food marketing not only through consumers' wants and needs, but also through actions of consumer groups and environmental lobbies.

Changes in lifestyle due to more women working outside the home, increasing mobility and more free time influence consumer behaviour. Trends in values and lifestyles bring product positioning, product innovation and adding more services to the product to the forefront of food marketing.

Physical environment. Ecological problems have become a major social issue. Many consumers are environmentally conscious, but do not behave in an environmentally friendly way. Environmentally friendly behaviour is promoted in particular by environmental lobbies and consumer groups. Ecological problems are acute in some agricultural sectors, e.g. manure problems in pig and poultry raising, use of pesticides/insecticides in horticulture, and land degradation in arable farming. The present wave of biotechnological inventions reinforces discussions about the sustainability of food systems.

Food marketing will have to pay more attention to the sustainability of the food marketing system. It will increasingly approach sustainability as an opportunity and not as a threat.

Political environment. Fewer trade barriers and less market intervention, combined with more involvement in environmental and health issues are trends in government policies with respect to food marketing. Member countries of GATT/WTO are committed to a reduction of market intervention, to improved market access (replacement of non-tariff barriers by "equivalent" tariffs and reduction of tariffs) and reduction of subsidised exports. The future EU membership of some middle and east European states will shift the Common Agricultural Policy (CAP) further from

market intervention to income support. The CAP will pay more attention to rural and environmental policies.

Food marketing systems are becoming more market oriented and rely less on market support from government.

Technological environment. Technological advances in IT (information technology), computer science, biotechnology, and transportation offer new opportunities to food marketing. New information technologies improve the speed and precision of exchange processes. Computerisation of production and logistical processes reduces costs. Biotechnological inventions create opportunities for new products. *However, many Western consumers are suspicious about food produced by modern biotechnological methods.*

Advances in technology increase marketing efficiency and stimulate product innovation in food marketing systems. Consumer bias against new sophisticated methods of food production and marketing increases the importance of communication and company-image in food marketing.

6 CHANGING ENTERPRISES AND STRATEGIES IN FOOD MARKETING SYSTEMS

Changes of enterprises in food marketing systems affect the potential role of VMIs. They result from environmental trends, but also from endogenous developments in enterprises themselves, such as technological inventions and new management techniques. In spite of the variety in Western food marketing systems, the developments in retailers, food manufacturers, wholesalers and farmers, show similar trends. Major trends that are relevant to VMIs will be discussed briefly in this section.

6.1 CHANGING ENTERPRISES

Food retailers. Trends in European food retailing result from policies aimed at higher effectiveness and efficiency. The organisational structure of retail enterprises has changed in conjunction with these policies.

- Marketing effectiveness of food retailers has been increased by market oriented retail policies. Width and depth of product assortment are cornerstones of such policies. They characterise to a large extent the store type, such as hypermarket, supermarket, discount store and speciality shop. A focus on specific target markets, and a constant search for new products and services are characteristic of modern food retailing. Private labels have become an important marketing instrument of retailers. In the past a cheap alternative to national brands, they are currently positioned as products of good quality, which are substantially cheaper than national brands. Retailers also try to improve marketing effectiveness through new assortments, better services or new outlets such as food shops in petrol- and railway stations and on the Internet.
- Marketing efficiency is extremely important in a highly competitive Western food retail market. Costs of carrying a large number of items per store (Aldi has about 600 lines, Sainsbury and Tesco stores between 10,000 and 20,000 lines

(Corstjens and Corstjens, 1995, p.197)) make logistical efficiency of paramount importance. Advances in IT, such as the use of bar-codes, scanning at check-outs and electronic data interchange, contribute to efficient logistics. Contracting-out of logistical functions has decreased logistical costs too. The drive for efficiency has also stimulated a purchasing policy of obtaining price discounts. The strong bargaining power of retail chains vis-à-vis food suppliers is instrumental in this respect.

- Organisational structure of food retailing is changing. Food retailing has shifted from small independents, such as grocery stores and greengrocers, to large retail chains. Some retail chains are members of a holding enterprise. Small independents try to stay in business either as a speciality shop, as a member of a wholesaler sponsored voluntary chain, such as Spar, as a member of a retailer sponsored voluntary chain, or by participating in a franchise organisation.

Food industry. The European food industry has been characterised by Linda (1988) as widely diversified in the form of product extensions, geographic diversification and functional diversification. Innovation, mergers and joint ventures are means to materialise the diversification process. At present many food manufacturers try to build a competitive position in international markets on the basis of their core competencies in production and marketing.

While multinationals such as Danone, Kraft, Nestlé and Unilever have been operating on an international scale for a long time already, a great many other food enterprises, which have traditionally set up production plants and management facilities in the domestic market only, are now also internationalising their businesses. A case in point are dairy cooperatives such as MD foods in Denmark, Sodiaal in France, Campina-Melkunie in the Netherlands and Avonmore in Ireland. In spite of the concentration and internationalisation in the European food industry a great many small and medium sized food manufacturers (SME's) remain competitive by focusing on market niches, by serving regional markets or by producing under a private retailer label.

Wholesale companies. As a result of concentration and specialisation in food marketing systems the need for some wholesale functions, such as assembling, has diminished. Retail chains have integrated the execution of other functions, such as regrouping. For example, sorting and collection of eggs upstream in the marketing channel disappeared with the advent of specialised poultry farms. Allocation and assortment of groceries, traditional functions of wholesalers, have been taken over by distribution centres of large retail companies.

Wholesalers have responded in different ways to market opportunities and threats. Distributive wholesalers have integrated food retailing, e.g. wholesaler sponsored voluntary chains. Wholesalers in commodities, such as merchants of grain, have become global players. Other wholesalers stay in business as agents of specific food manufacturers or food chains. Specialisation in particular wholesale functions, such as Cash and Carry, is another type of response to market opportunities and threats.

Wholesalers are not only challenged by concentration and specialisation in food marketing systems. Technological innovations and new types of food outlets also create opportunities and threats.

Farmers. Concentration and specialisation are main trends in Western agriculture. Large specialised farms have emerged in the production of wheat, milk, pigs, broilers and horticultural products. This trend towards concentration and specialisation is still continuing. Partly in response to the predominant position of specialised commercial farms, mixed farming is experiencing a revival, particularly in the production of organic and regional foods. This development has been stimulated not only by the needs and wants of environmentally conscious consumers but also by rural planning policies.

6.2 STRATEGIES OF FOOD MARKETING SYSTEMS

Changes of food marketing systems and their environment go together with a shift from "selling commodities" to "marketing products". In this context food marketing systems increasingly operate on the basis of well defined strategies. Basic strategies have become:

- *Market orientation*, " ...the organization wide generation of market intelligence, pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization wide responsiveness to it" (Kohli and Jaworski, 1990, p.6),
- *Market segmentation* by targeting consumers with specific needs and wants; companies often strive for market leadership in chosen target markets,
- *Product differentiation* on the basis of specific attributes of products and services,
- *Innovation* in order to serve changing consumer wants and needs and to capitalise on technological inventions,
- *Policy coordination* between decision makers of a food marketing system, chain strategies,
- *Internationalisation* of businesses in order to realise necessary economies of scale and scope in production and marketing, in particular with respect to the exploitation of core competencies.

7 THE IMPACT OF CHANGES IN THE STRATEGIES AND ENVIRONMENT OF FOOD MARKETING SYSTEMS ON VOLUNTARY MARKETING INSTITUTIONS

Changes in the environment, enterprises and strategies of food marketing systems have been reviewed briefly in the previous sections. Their impact on the viability of VMIs will be discussed in this section. In this context we will make use of the criteria proposed in section 4.

7.1 THE IMPACT OF CHANGING STRATEGIES ON VMIS.

Market orientation. Market orientation implies that marketing plays a central role in policies of agricultural and food companies. Therefore, VMIs responsible for marketing the products of participating enterprises should acquire a leading role in determining quality and quantity of product supply. However, the willingness of

enterprises to accept a leading role of VMIs is negatively correlated with size of enterprise: bigger enterprises are more able and willing to respond in their own way to market opportunities and threats. Consequently, market orientation makes VMIs less viable vis à vis large enterprises, but reinforces their role for small enterprises, which lack the necessary marketing skills. It makes moral hazard in the relationship between a VMI and participating enterprises a more serious issue, since the reliability of enterprises' product supply to the VMI is crucial for marketing success.

Market segmentation and product differentiation. Marketing policies of market segmentation and product differentiation by individual enterprises increase the heterogeneity of an industry. As a result, the condition "products/needs of enterprises served by a VMI are homogeneous" will be less easily fulfilled. However, small enterprises, having limited marketing capacities, might use a VMI as a vehicle for policies of market segmentation and/or product differentiation. Producers' groups are a case in point.

Innovation. Many food companies have become big enough to adopt a policy of product innovation, which is some type of product modification. This development diminishes the viability of VMIs: the conditions "products/needs of enterprises served by a VMI are homogeneous" and "enterprises prefer to respond jointly instead of individually to (specific) market opportunities and threats" are not easily fulfilled.

On the other hand, enterprises become increasingly aware that basic research paves the way for a continuous stream of new products. In spite of ongoing concentration in food marketing systems, many enterprises are still too small, or even do not want to engage in basic food research. As a result, there is a common need for basic research and a willingness to consider collective action. Therefore, a VMI in charge of basic research might be viable in spite of increasing product heterogeneity due to product innovation.

Policy coordination / chain strategies. Serving consumers by offering specific products and services requires effective policy coordination in the food chain. In fact, chain marketing (i.e. a coordinated marketing policy of two or more subsequent enterprises in a food chain) is receiving much attention. VMIs can perform coordination tasks, but big enterprises, such as retail enterprises, often prefer to carry out such tasks themselves, also if coordination concerns one aspect of a marketing strategy, such as product quality, only. However, when many small enterprises participate in a food chain, a VMI can be instrumental in coordinating their strategies, e.g. a wholesaler sponsored voluntary chain. Under such circumstances the condition of "products/needs of enterprises served by a VMI are homogeneous" is fulfilled by the very mission of the VMI, namely the development and implementation of a uniform marketing strategy of the participating enterprises. Franchise organisations are a case in point.

Internationalisation. Many VMIs serve enterprises of a specific country or region. Commodity boards and farmers' cooperatives are an example. However, international enterprises with foreign subsidiaries have a broader scope and are not interested in nationally oriented VMIs. As a result the condition for a viable VMI, "products/needs of enterprises served by a VMI are homogeneous", will not be met.

A solution to this problem is internationalisation of VMIs. VMIs with an international membership are scarce at present, but will become more important, e.g. farmers' cooperatives with an international membership.

7.2 THE IMPACT OF ENVIRONMENTAL TRENDS ON VMIS

Trends in the environment of food marketing systems influence VMIs through their influence on food marketing strategies. From that point of view their impact has been discussed in the previous section. However, the following trends create opportunities for VMIs, irrespective of the distinguished food marketing strategies:

- increasing concern about health and safety in relation to agricultural and food products,
- increasing concern about ethical and social issues related to agriculture and food production,
- increasing concern about the sustainability of agriculture and food production.

These trends often concern the generic product. For instance: consumers are worried about the cholesterol content of eggs or about pesticide residues on fresh fruit and vegetables; society is suspicious about the ecological consequences of genetically manipulated plants and animals; many people are critical of the environmental pollution caused by some types of animal husbandry.

Food marketing systems have to respond to such trends by developing products and procedures which are socially acceptable. VMIs can be instrumental in this respect by defining criteria and controlling their implementation. Examples include VMIs which develop and implement environmental labels; VMIs in charge of decreasing the amount of package waste; or VMIs which define and control the implementation of animal welfare criteria. Such VMIs seem viable since all enterprises of an industry face the same generic problem, which can effectively be handled by a collective approach. However, instead of joining a VMI some big enterprises prefer to adopt their own individual approach to such generic problems, the reason often being to support their own enterprise and brand image.

Many VMIs that take care of marketing problems resulting from societal concern about the production and marketing of a generic product, develop and implement behavioural rules for participating enterprises. In this respect they differ from "classical" VMIs, such as farmers' cooperatives, which actively participate in the marketing process.

7.3 ASPECTS OF VMI'S REACTION TO CHANGING STRATEGIES AND ENVIRONMENT

VMIs, in particular big VMIs, challenged by a changing environment try to stay in business, even if their relevance for participating enterprises is decreasing. Goals and time path for transforming such VMIs have to be planned carefully, in order to avoid poor solutions, "too little, too late" or even a "mission impossible". For example, a cooperative auction cannot transform itself into a true marketing cooperative without a fundamental change in its management organisation. In fact, while big VMIs, challenged by a changing environment, appear to be well able to

adopt new technologies, they often seem to have big problems in changing their management organisation and business culture.

The approach to transforming/adapting a VMI can, in analogy to the scheme of Visser and Hemerijck (1997, p.65,ff.; see section 3), be clarified by the criteria institutional importance (potential role of a VMI for the income formation of participating enterprises) and institutional capacities (capacities of a VMI in production and marketing), see Figure 11.2.

	INSTITUTIONAL CAPACITIES	
	+	
+ INSTITUTIONAL IMPORTANCE	INTENSIFY ACTIVITIES	IMPROVE CAPACITIES or QUIT
	ORGANISATIONAL CHANGE or QUIT	QUIT

Figure 11.2 Adaptation / transformation of a VMI to a changing environment in relation to institutional importance and institutional capacities

Finally it is interesting to note, that VMIs in responding to fundamental environmental changes sometimes evolve towards hybrid types of VMI. Examples include a farmers' cooperative owning a majority share in a limited company which has no direct formal link with cooperative members; an industrial research institute which is doing basic research for generic products on the basis of public-private partnership.

8 CONCLUSIONS

The above analysis of VMIs suggests the following conclusions.

- The proposed conceptual framework is helpful for classifying VMI's, and assessing the viability of VMIs.
- Many trends in Western food marketing systems, in particular the increasing number of medium-sized and big enterprises pursuing their own marketing policies, have a negative impact on the viability of VMIs.
- VMIs still have opportunities in Western food marketing systems, by offering specific marketing services to enterprises that basically pursue their own marketing policies: a "facilitating" VMI; and by planning and implementing the

total marketing programme for the product of small enterprises: a "strategic" VMI.

- There are increasing opportunities for VMIs that address marketing problems due to the externalities of food production and marketing.
- VMIs evolve from VMIs having business relations with member enterprises only, to VMIs having business relations with both member and non-member enterprises.
- Hybrid VMIs, such as public-private partnerships or cooperatives operating through limited enterprises, are becoming more important.

NOTE

¹ Section 2 borrows heavily from Meulenberg and Viaene (1998)

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