

CHAPTER 6

BUILDING PARTNERSHIPS FOR ADDING VALUE

The role of agribusiness in developing trade

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Abstract. As a major retailer with supermarkets in many parts of the world, Royal Ahold serves millions of consumers each day. These consumers become increasingly demanding, but spend less on food than ever before. Besides safe and high-quality food, consumers increasingly want their food to be responsibly produced. Most expect the retailers to ensure this and only very few are willing to accept higher prices to do so. Retailers therefore, also in developing countries, highly depend on large volumes and low prices. Economies of scale are more important than ever, and the focus is on good and short supply chains. The focus on safe and high-quality food brings retailers to implement worldwide food safety programmes, with a network of preferred suppliers. Retailers initiate programmes where the focus is on implementing safety and good practices among their outlets (supermarkets), distribution centres and suppliers. Through independent inspections their suppliers are screened on their ability to provide safe and responsible products. Once suppliers (or organized producers) match these criteria they can benefit by becoming part of the retailer's global and regional network. In other words, by complying with the retailer's high standards at the local level, they are able to have access to global markets. To become part of a retailer's regional and global network, suppliers need to understand the competitive challenges that retailers face in serving their consumers. Retailers are looking for partners that analyse this situation and suggest solutions. Suppliers with a proactive approach can receive support from retailers by being part of their networks, and from development programmes to achieve their optimization.

Keywords: consumer demand; food quality; food safety; economies of scale; global retail networks

CHALLENGES FOR RETAILERS IN A HIGHLY COMPETITIVE ENVIRONMENT

Demanding consumers, low prices

We are the retailers, the international retailers, those that some say squeeze the prices of the products from the South, and are not willing to pay an extra for the fact that it is coming from the South, coming from a developing economy. We have all these conditions, such as EUREPGAP and the Global Food Safety Initiative, and

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according to some we make life miserable for those who want to export their products to the areas where we operate.

This is the widespread perception among many stakeholders. Our company is Royal Ahold and we would like you to understand what our business is really about, because this is where the answer lies in being able to develop partnerships with Royal Ahold. The company has a yearly turnover of about 50-60 billion Euros, and we have around 8,000 supermarkets. These are mainly based in the USA, where we own Stop-and-Shop, Giant, Tops and Food Services, and in Europe, where we have over 600 Albert Heijn supermarkets in The Netherlands, supermarkets in Poland and the Czech Republic, and joint ventures in countries like Sweden and Portugal. We don't have one concept that applies in all countries, like some of our competitors do, but we have different formulas adapted to the local market. The most important thing is that we serve around 25 million customers every week. If we disappoint one, he or she will not come back. It is our task to understand what the customer wants, what he or she is willing to pay and what the preferences are. And that is a hell of a job.

Consumers in Europe and the US are spoiled with a great choice of products. An average supermarket in The Netherlands has 25,000-30,000 articles on the shelves; American supermarkets even have 50,000-70,000 articles on the shelves. Consumers still like high-quality and A-brands, but they are not willing to pay as much as we used to do for our food. We want to have products from all over the world: mangos all year round, strawberries all year round, so we source from Malta or Egypt, from a supplier that understands our needs.

Among consumers there is also the sense of 'guilt feeling': we want to consume and meanwhile take care of the planet. But there are only a very limited number of customers who are actually willing to pay for this feeling; most expect the supermarkets to take care of this. Supermarkets are struggling to meet with this demand without being the only ones to pay more for it. Experience has taught us that any price increase of a product in the supermarket above 5% to improve sustainability results in consumers walking away. Carrefour and Wal-Mart are dominating the retailing world, also in developing countries, and for their profits highly depend on large volumes and low prices. Nowadays, it is all about low prices. Just look at the German market: this is now completely dominated by discount supermarkets such as Lidl and Aldi. In this environment of heavy competition and low prices there is no retailer that makes a net profit of over 5 %.

In this highly competitive environment, we too need to buy large volumes to improve economies of scale, and we squeeze every single cent from the supply chain that is not really necessary. This is done by shortening the supply chains, by increasing information technology to have direct access throughout the supply chain, and by securing traceability to trace ingredients back to their roots in case something is wrong.

FOOD SAFETY AND SOURCING FROM DEVELOPING COUNTRIES

Food safety programme and standards

Food safety is an industry-wide concern. It is our top focus always to provide the safest possible products to consumers. We implemented a worldwide food safety policy in 2001, with the aim to continuously improve food safety practices at our operating units. By using the corporate 'Model Food Safety Program', local companies conduct self-evaluations and local programmes are benchmarked. Concrete action plans are then drawn up for each local company. Results are also used to facilitate the exchange of best practices through our network of suppliers. As a result, all of our local companies have stringent food safety programmes and procedures, and have ongoing improvement plans in place.

Royal Ahold is actively involved in developing the EUREPGAP standard, which is designed to ensure product safety, environmental protection, reduced use of agro-chemicals, and labour safety. The standard stands for good agricultural practices, and is an integration of the different systems being used by different European retailers. By linking these systems into one standard, certification of producers, also in developing countries, becomes simpler, more effective and cheaper. Through cooperation small producers will be able to understand that a minimum standard for us is EUREPGAP, and what this means for them. Food safety standards apply to all of our products. However, on the social, environmental and ethical issues, there is no global consensus. These issues and importance vary by country and region.

Guatemala: safe food

In Guatemala, for example, one of our companies, La Fragua, evaluated its stores and distribution centres according to our Model Food Safety Program. Based on the outcomes, a roadmap for future improvements was developed. The initiative could count on support from both the Food Safety Networking Group and the Ahold Latin-American Food Safety Committee. As a result, La Fragua improved food safety in the following areas:

- Increased staff training in safe food-handling procedures
- In-store procedures for rigorous temperature control of perishable products
- Microbiological laboratory to monitor safety and quality of perishables
- All 120 stores and distribution centres started to work towards HACCP certification.

La Fragua also launched a certification programme for suppliers of perishable produce. Through this programme, it assisted suppliers in the Good Manufacturing Standard (CFR 110 of the US FDA).

Guatemala: 'good coffee'

For our own brand of Ahold retailers in The Netherlands, Sweden, Norway and the US, the Ahold Coffee Company purchases around 15,000 tons of coffee per year. For this, we developed a structural approach for improving the social and environmental performances of its suppliers. We translated the EUREPGAP into 'good coffee' or Utz-Kapeh standards. Ahold and its coffee suppliers in Guatemala established the Utz Kapeh foundation, an independent non-profit organization that promotes the standards to local suppliers and to other retailers and roasters. In 2002, we hired a respected auditing firm to certify the coffee-growing plantations that supply the Ahold Coffee Company. This firm, working with the Utz Kapeh Code of Conduct, inspected a number of plantations on social requirements, such as minimum salaries, social security, working conditions, education for children, housing, and water and sanitation. That year, despite the very strict requirements, five plantations supplying coffee to Ahold Coffee Company were certified.

Screening of suppliers

These examples show that our companies increasingly screen suppliers on the basis of their ability to provide the safest possible products. Potential suppliers to our regional or global sourcing are asked to respond to a set of questions related to food safety on every Request for Proposal. These audits are increasingly being outsourced to independent certified inspection companies. Questions focus on assessing the supplier's methods of guaranteeing food safety and product quality, which include relevant governmental guidelines and international standards.

PARTNERSHIPS BASED ON MUTUAL UNDERSTANDING*Finding partners that provide solutions*

Dialogue between farmers' organizations and retailers is important, to learn from each other what can be done and how; to support farmers in looking at their products through the eyes of retailers, and then come up with innovative marketing ideas on meeting demands for bulk or specialty products, rather than asking us how to do it. Producers we buy from in Ghana, South Africa, Kenya and Latin America all do the marketing with us. And that is what we are looking for.

One of Royal Ahold's principles is the support of local economic development. We help to develop local businesses in ways that leverage our strengths, benefit the local economy and make sound business sense. Our companies are increasingly involved in regional and global sourcing. Through our large network of customers around the world, local suppliers can be identified as potential global or regional suppliers. To find these new international vendors, we work proactively with our operating companies. For example, local suppliers of mangos, asparagus and

shrimps were able to expand their business through our regional and global sourcing network.

Our network of preferred suppliers is the Ahold Networking. It is used to enable experts around the world to access a common knowledge database, use a collective early-warning system, share knowledge, exchange best practices, and update each other on their progress in meeting individual food safety plans. We actively try to facilitate such business linkages. In Costa Rica and Guatemala, in 2002, we organized our first so-called Supplier Summit, where active local suppliers to our companies were invited to present their products to other buyers from the Ahold regional and global sourcing network.

CONCLUSION

To be part of regional and global sourcing networks, suppliers will have to understand the problems that we, as retailers, face in servicing our customers. If producers in developing countries do not understand this, if they do not understand the high level of competition among supermarkets, then they are not in the position of doing business with us. We are looking for partners who think in the same way as we do, who have analysed these issues by themselves before coming to us, and who can come up with solutions. That can be done from all over the world, but for smallholders requires a level of organization and integration. Royal Ahold supports projects in Ghana and did so in Thailand, where we try to organize activities together with organized producers. To support such activities, there is money available from development banks and governments, and there is research available from institutions and universities. Therefore, if suppliers act proactively, we are able to support them to succeed on the world market. And this, in turn, may lead to the creation of local jobs, and indirectly to the enhancement of local economic development. And at the same time, we are expanding our supplier base which enables us to purchase quality products at competitive prices for our customers.