AEC 841-Analysis of Food System Organization and Performance

Friday, Feb 7, 2003.


Reading Location Code

1. Main Library Assigned Reading
2. Set of Assigned readings can be purchased from Budget Printing Center, 974 Trowbridge Rd. (by the Shoprite, 351-5060)
3. Available from Patricia Neumann, 213 AGH
4. Required Text
5. Optional Text
6. Main Library, Regular Collection
7. Class Handout
8. Available from Instructors
9. Cook Hall Reading Sets

A. Required Reading


   Location Code: ( AEC 841 Web Site , under Friday Session, Feb 7. )

   http://www.msu.edu/course/aec/841/FridayDiscussions.htm

2. Notes- insights on urban system reform from LAMP work in early to mid 1970's plus other hand out materials attached below. The hand out includes also an article for Time Magazine of Jan 13, 2003 "Can Wal-Mart Get Any Bigger? (Yes, a Lot Bigger and Here’s How)

B. Background Reading


   http://www.odi.org.uk/publications/dpr/theme.html#20_4
1. Harrison, et. al., "The Urban Food System", Chapter 3 in Improving Food Marketing Systems in Developing Countries: Experiences From Latin America. Research Report No. 6, Latin American Studies Center, Michigan State University, 1974. (Reprinted as MSU IDWP 9.)

Location Code: ( AEC 841 Web Site , under Friday Session, Feb 7. )
http://www.msu.edu/course/aec/841/FridayDiscussions.htm

2. Improving Urban Food Supply and Distribution in Developing Countries: The Role of City Authorities. 1999. By Michael Hubbard and Gideon Onumah. From FAO research paper “Urban food supply and distribution: policies addressing urban poverty” Available at the FAO’s “Food Into Cities” website at:
http://www.fao.org/ag/sada/htm


http://www.aplivelihoods.org/Archive/DPR_Reardon-Berdegue%20final-%20The%20Rapid%20Rise%20of%20Supermarkets%20in%20Latin%20America.pdf

Case Study Presentation and Discussion of Background Materials

This is a case study about applied marketing research and recommendations from work done on rural and urban food market reform done in the mid 1970's in Costa Rica. You are expected to have read before class the summary of recommendations from this work (above required reading). Professor Weber will comment on this paper and then use a powerpoint presentation to summarize comments from a recent trip he made to Costa Rica to observe whether any of the research recommendations were implemented, and if so, what might be some of the implications. He will also comment on current forces in the retail and wholesale portions of the food system in Costa Rica, and more generally in Central America.

Class discussion will focus on the question: what is the current role ( and how to improve it) of retail and wholesale public markets in the fruit and vegetable marketing system in Costa Rica and similar economies.
Highlights of Insights from Urban Food System Reform Research, Harrison, et. al.

I. Performance- Summary of findings from Latin American work in early and mid 1970's

A. Results for Consumers

1. Poor consumers pay more for food
2. Quality of products was generally lower for lower income consumers
3. Location convenience was important for retailing services
4. Retail sales on credit were only a minor factor in store choice

B. Food Retailing and Wholesaling

1. Gross margins at retail and wholesale were generally comparable
   (normally expect wholesale to be lower-some possible factors for this)
   a. costs and risks were high
   b. losses were high
   c. weak competition

2. In general, profits were not found to be excessive
3. Economic efficiency measures (higher productivity in labor and capital) tended to
   increase as volume increased for personal service retailers
4. In all areas studied, there was an extra link in the food distributiton system serving small
   retailers
5. In general, wholesalers and retailers operate with passive selling, active buying
   orientation
6. Supermarkets and self-service stores were beginning to be important competitive
   pressures

II. Challenges (mid 1970's) in Urban Food Distribution System Reform

A. Major challenge in reforming the urban retail/wholesale systems

1. How to get reasonable variety and assortment of food products in stores
2. Combine with lower prices for large masses of consumers (not just high end consumers)
3. How to get location convenience in retail options for consumers

B. Designing and evaluating urban wholesale market reforms

1. Strong interest in urban reform comes from agencies and individuals related to wholesale
   markets. Why?
   a. urban bias and urban renewal planning related to the political process
   b. visibility of wholesale markets and their large clearing house function for
      distribution
   c. infrastructure bias in foreign and domestic financial sources
   d. potentially important role of wholesalers as channel captains in distribution chains
C. Need to promote improved retail/wholesale/farm linkages, and not just modern supermarkets

D. Need to maintain investments and interest in investing in the complementary marketing services (rules of the game, information systems, marketing extension services) and training of public and private participants

Figure 1. Changes in Food Retailing and Wholesaling in the Course of Economic Development  
(Source: FAO)
Urban expansion and issues of food supply and distribution to and in the cities have four major consequences for urban food security. The first is the competition between demands for land needed for housing, industry, and infrastructure and land needed for agricultural production within and around cities. Agriculturally productive lands are likely to be lost in this competition.

The second consequence is the increasing quantities of food that must be brought into cities and distributed within the expanding urban areas (see table). This means more trucks coming into cities, contributing to traffic congestion and air pollution. It also means additional stress on existing food distribution infrastructure and facilities, most of which are already inefficient, unhygienic, and environmentally unfriendly.

The third consequence is the modification of consumption habits and food purchasing behaviors. Consumers in urban areas—who generally pay up to 30 percent more for their food compared with their rural counterparts—have less time to spend preparing food. Therefore, the demand for more convenience and processed meals increases, raising issues of food quality and safety in terms of the use of appropriate inputs, particularly safe water, in food processing.

The final consequence for urban food security is the likelihood that low-income urban households will reside farther and farther away from food markets, often in slums that do not have water, roads, or electricity. Since these households are also less likely to have refrigerators, they face additional time and transport costs in accessing food daily.

As urban expansion continues apace, the overall cost of supplying, distributing, and accessing food is likely to increase further and, with it, the number of urban households that are food insecure. The challenge of feeding cities therefore lies in facilitating consumer access to food and ensuring that required investments are forthcoming for increasing food production, processing, and distribution capacities and services under hygienic, healthy, and environmentally sound conditions. Adequately meeting this challenge will promote the development of peri-urban and rural areas.

FOOD SUPPLY PROBLEMS To feed ever-growing cities, more food will have to be imported or produced in areas presently under cultivation or on new lands (which are likely to be more distant and less productive).

Urban and peri-urban agriculture can be an important source of food for some cities, especially when the national rural food production, marketing, and transportation systems are not well developed. However, urban and peri-urban agriculture pose a number of problems that stem from their close proximity to densely populated areas, with animals and humans sharing the same air, water, and soil resources. Inappropriate use of chemicals and solid and liquid wastes in farming can contaminate food, soil, and water resources used for drinking and food processing. Raising livestock in and close to urban areas may also increase health risks for residents. While many of the problems could be solved by information and extension assistance, local city authorities have often responded instead
by destroying food crops and evicting food producers from public lands.

Much of the expected higher cost of feeding cities is likely to be accounted for by transportation costs as well as by postharvest food losses from inappropriate food handling and packaging, the need to collect food from a large number of small farmers, and frequent delays from road check points and (often illegal) taxation. These food losses can be as high as 35 percent for perishable food products, while transportation costs can reach as high as 90 percent of the overall food marketing margin.

**FOOD DISTRIBUTION PROBLEMS** In developing countries, a large share of food passes through wholesale markets and is then redistributed within the urban area through retail markets, shops, street sellers, and supermarkets, all of which have problems. Many wholesale markets are old, have not adapted to the increase in food quantities, are not properly managed and maintained, and are in areas that urban expansion has transformed into central, high-density spots. The latter factor increases traffic congestion and eliminates space for market expansion. Storage facilities, particularly cold storage, are insufficient or badly managed or both. These difficulties create additional costs and losses for traders and lead to increased food contamination.

At the retail level, supermarkets and hypermarkets (combined supermarkets and department stores) play only a minor role in urban food distribution in developing economies. Even in Latin American cities this sector accounts for only 30 percent of food retail sales, even though it has developed rapidly since the 1970s. Such markets usually cater to the needs of high-income families, are located in middle- to high-income urban areas, and distribute mainly manufactured food products and imports. Staples produced locally are only a small part of these markets' food sales. They usually rely instead on direct contracts with distant food producers for their supplies.

The traditional retail food sector dominates developing-country markets, making it central to improving food distribution in cities. But public retail markets, which tend to be concentrated in city centers, are usually congested, unhealthy, and insecure. Spontaneous markets are often seen by local city authorities as a cause of traffic, health, and safety problems, and the sellers are consequently harassed by municipal police. In recent times many cities have experienced a steep rise in informal-sector retailing, which fills an important gap in the distribution chain because it is a convenient source of cheap food for low-income urban consumers. It also serves as an important source of revenue for low-income households engaged in these activities.

**THE ROLE OF CITY AND LOCAL AUTHORITIES** Most city and local authorities believe that food supply and distribution issues are not their responsibility and instead concentrate on public health, education, housing, sanitation, and transport. However, these authorities affect food supply and distribution systems directly or indirectly through, for example, health and housing regulations and construction and management of processing and market infrastructure. Fortunately, awareness is growing of the need for city and local authorities to play a pro-active and coordinating role in actions to improve urban food security. City authorities need to adopt policies that support those involved in food supply and distribution activities by promoting private investment, getting involved in food supply and distribution themselves (by facilitating urban and peri-urban agriculture and by providing the necessary planning, infrastructure, facilities, services, information, and regulations), coordinating public and private development initiatives, and mediating between the central
government and the private food sector.

When formulating food supply and distribution policies and strategies, city and local authorities should rely on four strategic principles: (1) adopt an approach that is consultative, participatory, open-minded, alliance-seeking, and technically sound and involves the private sector; (2) promote competition and reduce the influence of large intermediaries; (3) leave to the private sector facilities and services that can best be run as businesses; and (4) encourage effective development that lowers the cost of living and stimulates employment growth in the city. City and local authorities can also play a crucial role in national food-security policies by complementing efforts by farmers’ associations and local rural authorities to lobby governments on projects and programs that will reduce food production and marketing constraints.

City and local authorities also need to support urban and peri-urban agriculture with information campaigns to minimize adverse health and environmental consequences and with appropriately enforced regulations that allow and facilitate urban and peri-urban agricultural activities.

City and local authorities can play a fundamental role in ensuring that food distribution issues are appropriately considered when new infrastructure, facilities, and services are being planned. These considerations include location, type, and standards of the services and structures, as well as the financial capacity of the users, in order to enable them to pay usage fees and keep up market facilities. Other key issues are the management of markets and the criteria for allocating space for building markets.

While much of the food production and distribution is out of the control of city and local authorities, these authorities must coordinate with other organizations that are major stakeholders in the food production and distribution system, and they should promote and support policies that ensure urban food security and stimulate private investment as well as private participation in planning decisions. Only if low-income urban households have access to affordable, good-quality food through the programs and policies noted here can they achieve food security.


Next Brief "A 2020 Vision for Food, Agriculture, and the Environment" is an initiative of the International Food Policy Research Institute (IFPRI) to develop a shared vision and a consensus for action on how to meet future world food needs while reducing poverty and protecting the environment. Through the 2020 Vision initiative, IFPRI is bringing together divergent schools of thought on these issues, generating research, and identifying recommendations.

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"Wal-Mart's Global Experience"

Mr. John B. Menzer President & CEO, Wal-Mart International Executive Vice President, Wal-Mart Stores, Inc.

Still Room for Growth

Since opening our first store in 1962, Wal-Mart has enjoyed great growth and success. This past year, we achieved over $200 billion in sales for the first time. We currently have over 4,500 stores and employ 1.4 million associates worldwide, with over 300,000 outside of the United States.

But Wal-Mart is still very young internationally. We started in international markets in 1991 with our joint venture in Mexico and now have over 1,200 stores in 9 countries outside of the United States. This year, we made our first investment in the Japanese market with a 6.1 percent ownership interest in Seiyu. So despite our size, we are still very excited about the growth opportunities ahead.

In Europe, we acquired the Asda chain in the United Kingdom in 1999, which was named the UK's favorite supermarket and best place to work. We are expanding operations in Germany, despite a difficult economy today.

In North and South America, outside of the US, Wal-Mart de Mexico has dramatically improved performance over the last 3 years by expanding distribution capacity, sales by ELDP, "every day, low price," and developing trust with the customer. Wal-Mart Puerto Rico is expanding and applying best practices from around the world, as is Wal-Mart Brazil. Even in the very troubled economy of Argentina, we've boosted our financial results, thanks to dedicated associates. Wal-Mart Canada has enjoyed 8 years of continuous growth in sales and profits, last year receiving requests from 80 different communities for a Wal-Mart store in their market. Wal-Mart Canada is a global leader in apparel lifestyle merchandising with the number two market share in Canada for apparel and number one share in footwear.

In Asia today, we have 13 Supercenters in Korea and will be opening an additional 6 stores this year. We opened 4 stores and clubs in China and will have 22 units by the end of this year. As for Japan, we've studied the Japanese market now for over 5 years, and we think the timing is right. We recently acquired 6.1 percent interest in Seiyu and Wal-Mart has options to acquire up to 67% of the company. We're very excited because we have a very strong Seiyu management team and some outstanding real estate locations.

Keys to Global Success

At Wal-Mart, we have three basic beliefs that we've been able to apply universally: respect for the individual, service to our customers and a dedication to strive for excellence. This means empowering
our associates, ensuring that the customer is number one and continually challenging ourselves to accomplish things that no one else has been able to do.

One of Wal-Mart's major global strengths is the selective use of our multi-format operations worldwide to serve customers of all income levels and all demographics. These include Asda, our grocery store concept in the UK, our Neighborhood Market concept, being employed in the US and China, Superama, our high-end grocery store and Bodega, our low-income format for Mexico, Todo Dia, our Brazilian concept for the inner city; our Wal-Mart discount stores; our various restaurant chains, and of course, our Sam's Clubs, Wal-Mart discount stores and Wal-Mart Supercenters. We aim to use our global scale to local advantage, a strategy we call "global leveraging."

We employ global sourcing and stimulate exports in various countries that we operate in to bring the customer the best products from around the world. Our ideas and best practices are also exported from various countries to be applied worldwide. We share logistics knowledge with our global suppliers because it helps reduce cost in the supply chain and because, as our founder Sam Walton said, we need to communicate and share everything we possibly can with our associates and partners because the more they know and understand, the more they'll care. And so our focus is on communication, and it's built into the Wal-Mart supply chain.

One way we do this is through a system called Retail Link, a Web-based application used worldwide giving vendors access to item details for sales and inventory at no charge. We also enforce what we call Global Brand Non-negotiables to ensure quality and value to ensure trust and loyalty from our customer. We talk every day about the customer and customer service.

Another key to Wal-Mart's success is what we call our "Productivity Loop," where we focus on lowering our expenses so as to lower retail prices, which in turn, increases customer traffic and sales. And as we increase sales, we once again leverage our expenses and lower our retail prices for a never-ending virtuous circle. We recently developed a productivity loop where by aiming to be the best place to work for associates, we get the best people who then develop the best place to shop, leading to more customers and better results, and subsequently, more people who want to work with a winning company.

At Wal-Mart, we believe we must always be a company of very high integrity with people who truly make a difference the world over. People are the first key to achieving success as global company, followed by strong global and regional sourcing -- having the best items at the right price and being first in the market for new items through global vendor partnerships -- sharing of best practices, and finally, global branding. For us that means having the best Supercenters, the best discount stores and the best Sam's Clubs worldwide. Customers have global expectations, and so you're only as good as your worst performing store.

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