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The Impact of Private Label Foods on Supply Chain Governance

Abstract:

Purpose: The purpose of this paper is to investigate the impact of the introduction of private label (PL) foods upon the governance of the food supply chains.

Design/methodology/approach: We conducted a multi-case study research examining the launch and development of PL cheeses in four large national-wide retail chains. We focused on the category of Products of Designated Origin (PDO) cheeses, including the popular feta cheese. Data collection involved semi-structured interviews and secondary sources of information. Data Analysis involved single-case and within-case analyses.

Findings: There is a strong motive to launch and develop PL cheeses due to increasing consumer demand. Retailers choose suppliers based on criteria such as: compliance to quality assurance standards, modernisation of processing facilities; implementation of legislation; credibility; experience; and reputation.

Retailers use contracts and prefer small suppliers than medium-sized companies. Supply chain governance turns from market to hierarchy status, which performs better in terms of supply chain cost, food quality and consumer satisfaction. The structure of food industry is also affected by pressure put on medium-sized food companies.

Research limitations/implications: The paper is based on a multiple case study design that does not provide static generalizations, yet it offers a stepping stone to building new theory about supply chain governance, how it evolves and its effects on supply chain performance.

Practical implications: The introduction of PL cheeses favours small and dynamic cheese processing units willing to adopt retailer standards and prices over larger units, which poses a real threat to the survival of regional-wide food companies.

Originality/value: Few studies have examined how supply chain governance evolves and what triggers a change in governance structures.

1. Introduction

Across the globe, private label market share is growing. In Europe, the economic downturn has already led to changes in shopping patterns, the customer shift from branded to private label (PL) foods being a pertinent example of these changes (Euromonitor, 2012b). In Eastern Europe, the market share of private label food has escalated from zero to almost 20% (Stanton and Meloche, 2011). Despite of the rapid PL growth, its impact upon the supply chain governance is still an open question.

Supply chain governance refers to the rules, structures, and institutions that guide, control, and lead supply chains, providing the framework within which supply chain transactions are negotiated and executed. Despite the fact that transaction cost economics have been extensively researched, research in supply chain management has pay little attention to supply chain governance, its determinants and how it evolves (Richey et al. 2010; Hingley et al. 2010; Bourlakis et al. 2011). A gap in current literature on supply chain governance exists due to the inter-disciplinary nature of supply chains. For example, Vermeulen and Kok (2012) defined sustainable supply chain governance systems as ‘forms of cooperation of market actors in (international) supply chains, possibly together with non-market actors, in improving the

environmental and social conditions of production operations' and suggested a research approach combining concepts from the fields of environmental business management, supply chain management and from policy science'.

Referring to food and agricultural products, supply chain governance has evolved dramatically over times. In the past few decades, there has been a revolution in the way food is delivered from the farm to the consumer's fork. Food supply chains have increasingly become global, more complex, sophisticated, technically driven in order to meet consumer needs. This evolution has placed retailers as the masters of food supply chain while food producers were historically the key drivers of food supply chains (Lang et al., 2001). Since the 1980s, the global retailer chains have exerted increasing influence over supply chain governance (Barling, 2007). The evolution of supply chain governance concurs with and reflects of the underlining changes of modern food economy in western cultures, where markets move from commodity and bulk agricultural products to branded products and customer loyalty (Reardon and Timmer, 2005). Thus, it can be assumed that, it is legitimate to use market and competitive forces to study the strength and direction of evolution of supply chain governance.

The aim of this study was to research how the introduction of private labels influences the governance of the food supply chains. Using a multi-case study methodology, the impact of private label cheese on supply chain governance was examined in four large retail chains in Greece. The following section introduces the concept of food supply chain management and discusses the supply chain governance and its mechanisms. The methodology section justifies the selection of case research as appropriate for this study and describes the research design. The findings section presents the results from within-case and cross-case analysis. The final section discusses the findings and offers conclusions and recommendations for future research.

2. Literature Review

Food Supply Chain Management

There is consensus that companies in the agribusiness and food industries have to cooperate to achieve mutual benefits (Diabat et al, 2012; Trienekens et al, 2012). As consumers are becoming increasingly knowledgeable about products and more demanding about price and food quality, organizations have turned to supply chain management in order to ways to create and deliver value to customers as well as reduce cost (Van der Vorst et al., 2009). Successful implementation of supply chain management implies that supply chain participants from fork to farm should cooperate in order to coordinate activities and gain mutual benefits (Bezuidenhout et al. 2012; Singh, 2011).

Retailers have pioneered in seeing supply chains as the next big thing and, to a large extend, they managed to drive the odds of supply chain governance to their own favour. Wilson (1996) noted that partnership formation increased post 1991 especially in the UK food chain and food retailers, in particular, are extremely keen to employ such partnerships and make use of them in their promotion activities. Although traditionally the food manufacturing sector has been more concentrated, in the last decade, retail internationalization, merger and acquisition activity and format diversification have led to high concentration levels in most European retail markets (Dawson, 2004; Fearne and Hughes, 2000). This implies that retailers are in a position of power relative to some manufacturers / suppliers which makes it difficult to embrace a partnership / collaboration philosophy (Fernie and McKinnon, 2003). Retailers have developed

sophisticated supplier selection criteria to evaluate current partners and benchmark their performance (Vlachos and Bourlakis 2006). Selection criteria may include a vast number of diverse factors such product related-factors (quality, brand, traditional characteristics, organoleptic characteristics), logistics factors (on-time delivery, delivery reliability, logistics cost, packaging, damages during transportation), performance factors (price, number of food safety complaints, sustainability) relationship factors (communication, information sharing, flexibility, agility).

Duffy and Fearn (2009) studied the adoption of farm assurance in the red meat supply chain in UK and pointed out that farmers unequivocally bear the costs of farm assurance while retailers receive greater benefits from the upstream adoption of farm assurance. Bourlakis et al. (2012) examined the Greek food chain performance and found that retailers enjoy strong performance results. Canavari et al. (2010) studied the food sector in Italy and reported that although retail concentration is lower than Northern EU countries, retailers are in better position since poor co-ordination generates transaction costs and resource wastage. Private label fosters trust in retailer's brand which generates value for consumers. Therefore, efficient private label chain governance reduces transaction costs and resource waste as well as produces more value for supply chain members to share. However, Canavari et al. (2010) pointed out that retailers behave opportunistically paying no extra remuneration to producers for their high traceability standards.

Supply Chain Governance

The nature of supply chain management poses a challenge to its practitioners: it is resource intensive, requires a collaborative culture to create synergies than collusions, and depends on a governance structure that need to be strong enough to minimize costs and maximize profits for all supply chain members (Fawcett et al. 2006). A large proportion of supply chain costs are transaction costs among the chain partners. Therefore, there is a direct relation to chain governance and transaction costs.

There is consensus that transaction costs influence the structure of an industry and suppliers and buyers develop their relationships in ways that minimize transaction costs (Williamson, 1975). Williamson (1996) defined governance structures as “*the institutional matrix within which transactions are negotiated and executed.*” Referring to agri-food chains, Zhang and Aramyan (2009) argued that supply chain governance refers to the institutional framework in the supply chain where transactions are carried out. Although there are critics and limitations regarding the theory of transaction cost economics, especially referring to the social factors embedded in a contract, nevertheless, this theory has posited an array of governance structures from spot markets to vertical integration. In between of these two polar governance structures lie various hybrid forms, such as contracts, strategic alliances, and joint ventures (Peterson et al. 2001). Different types of supply chain governance are differentiated by the type of transaction (from price-based on spot-markets to ownership-based to complete integration), the degree of integration, coordination and control, the governing tools (contracts) and more (Gereffi et al., 2005; Al-Oun, 2008). Within the context of agri-food supply chains, four types of supply chain governance can be distinguished:

Spot Market: In spot markets, price is the ‘king’ derived by the interaction of supply and demand. Market equilibrium has been extensively studied and modelled (Haksöz and Seshadri, 2007). Price fluctuations can be steep and highly unpredictable which can bring risks and opportunities to trading parties. Forward contracts that commit suppliers and buyers to a fixed price are a popular method of dealing with spot markets risks.

Standards: No investment is required when transactions are based on standards. Organic food, Products of Designated Origin, and Protected Geographical Indication (PDO/PGI) are lawful standards. Standards establish trust in transactions which enforces exchange partners to be honest and benevolent and allow the use of technology like Electronic Data Interchange (Anderson and Narus, 1990; Vlachos, 2004). Preference in a standard implies that there is neither investment nor attachment to a specific partner, thus opportunistic behaviour is also likely.

Contracts: Whereas in standards a third party guarantee the quality, in contracts the contractual parties agree on the terms of their cooperation. A contract can take various forms depending on the frequency of transactions, the duration of commitment, the degree of investment, the distribution of risks and profits, and their incompleteness (Williamson, 1996). Transaction specific investment in the buyer-seller relationship is one of the critical elements in contracts, which differentiate them from spot markets and standards (Brown et al. 2009).

Vertical Integration: Supply chain integration typically refers to incorporating processes with another key member of the supply chain (Chen et al., 2009). Integration involves governing backward links with first-tier suppliers, or forward links with first-tier customers, or both forward and backward links. Integration of internal processes with processes of a partner is not a straightforward procedure as it involves a degree of exposure and sharing, and not all companies keep open doors to external bodies.

It is the governance of a series of integrations that allows a supply chain to become more integrated, reduce costs, manage risks and increase performance by delivering quality food to end consumers. Problems in non-integrated supply chains are legendary and well-documented since Forrester's (1961) pioneering work in industrial dynamics. Moreover, a number of studies confirm the positive effect of integration in supply chain performance (Gimenez and Ventura, 2005; Stank, Keller, and Closs, 1999; Corsten and Felde, 2005; Vlachos et al., 2008). Despite the encouraging results, companies are still hesitant to integrate their process across the supply chain. Barriers to supply chain integration may include lack of trust, lack of awareness, fear of losing control, misaligned goals and diverge objectives, lack of standardisation on information data and systems, short-term focus than the required long-term commitment, past failures, and supply chain complexity issues (Moberg et al., 2003; Barratt, 2004; Ellinger et al., 2006).

In a vertical integration, supply chain members invest in business partnership. However, depending on who controls or own processes and resources within the integrated partnership, it can take various types such as dominant (one party dominates the partnership), equal (both parties take equal risks and profits), or strategic alliance (sharing strategic information with other partner).

<< Insert Figure 1 about here >>

Although that different governance structures have studied independently, there is scarce evidence how governance structures evolve. Further, although there is consensus that transaction costs influence the structure of an industry, the relation of industry structure and supply chain governance is not clear (Haksöz and Seshadri, 2007).

Private labelling

Reports suggest that private label food products hold a market share of about 16% in US and 30% in Europe with 4 in 10 consumers identifying themselves as frequent private label shoppers (PLMA, 2011). There is little doubt that the delisting of A-brands such as Heinz and Coca Cola by large retailers such as Rewe and Edeka can be considered as a sign on the power that private label products bring to retailers over powerful food manufacturers (ESM, 2011).

The current economic crisis make the situation easier for private labels as consumers turn to them seeking cheap products offering value for money. For example, in Western Europe in 2009, private labels market share rose to over 15% while at the same time branded products saw shares to shrink (Euromonitor, 2012a). Increasing private label sales lead to more shelf-space and customer-loyalty, which in retrospect creates more sales in a way that put considerable pressure to branded products.

Retailing in Greece

The Greek food sector's structure is bipolar; on the one hand, a few large companies dominate the market such as the multinationals (e.g. Nestlé, Carrefour) and on the other hand, there is a significant group of small and medium-sized firms that operate mostly in regional markets. In the Greek food retail market, there are about 294 retail chains and the leading food retail multiples in terms of sales are the multinational firms, i.e. Carrefour-Marinopoulos and Alfa-Beta Vasilopoulos (Delhaize Le Lion). Retailing in Greece generated sales about € 40.2 billion in 2011, down from € 42.4 bn in 2008 with food accounted for half of the sales (51%) (ICAP, 2012). The top 5 retail chains represent 56% of total sales (Carrefour-Marinopoulos, 15.6%; Lidl Hellas, 11.7%; Alfa-Beta Vasilopoulos, 12.5%; Sklaventis, 9.9%; and Veropoulos, 6.2%) and the top 10 retail chains account for about the 86% of market share (Stochasis, 2012). Due to economic crisis, total retail sales dropped 6.7% from 2010 to 2011 but the reduction was double in smaller retail chains (11%) in the same period. Among the leaders in grocery, Alfa-Beta Vasilopoulos offers 3,500 items under its private label lines, representing 20% of all its products in early 2011. Accordingly, Carrefour-Marinopoulos carries a selection of 2,200 private label products. Growth rate of all private label in Greece have reached 20% in 2010, while rising as far as 30% in 2011 (Euromonitor, 2012b).

Due to severe recession, Greek consumers become value-conscious, seeking out the best offers in terms of affordability and quality, thus offering retailers an opportunity to turn private label lines into a key strategy to prevent a significant loss in profits and compete for consumers with declining disposable incomes. The expansion and strengthening of private label brands, especially during recession, may impact the supply chain governance. Specifically, spot market is not suitable for private labels and spot suppliers may face difficulties in finding demand for their products. Further, standards could be appropriate governance mechanism provided that PDO products are standardised. However, retailers eager to build their loyalty to their own brand may avoid this supply chain governance since the risk in supply poor food quality is higher than contracts and vertical integration. Contracts appear to be the more suitable for private labels and retailers need to decide about the frequency of transactions, the duration of commitment, and the distribution of risks and profits (Williamson, 1996). However, due to the nature of the product, which requires a standard set of quality characteristics like taste, smell, and other organoleptic characteristics, retailers may

seek for suppliers able to commit to transaction specific investment in the buyer-seller relationship. Given that the majority of suppliers are small and medium enterprises, contracting may offer disadvantages to this end (Vlachos, 2012). Finally, vertical integration involves a degree of exposure and sharing that may be not suitable in a buyer-supplier relationship where the buyer is a large retailer and supplier a small or medium food enterprise.

3. Methodology

Justification of Case Research

Case study research was selected for an in-depth inquiry of private label cheese impact on supply chain governance. Case study research attempts to explore, describe, or explain events as they actually happened (Yin, 2009). However, there is a lack of clarity about the process of collecting and analysing qualitative data from case studies as well as how to produce sound research designs when conducting case research (Eisenhardt, 1989; Morgan and Morgan, 2008; Yin, 2009). Easterby-Smith et al.(1990, p. 21) defined the research design as“... *the overall configuration of a piece of research: what kind of evidence is gathered from where, and how such evidence is interpreted in order to provide good answers to the basic research question[s].*” In order to increase the validity and reliability of the research design, case study research can utilise several sources of evidence, such as documents, archival records, interviews, direct observation, participant observation, and physical artefacts (Thorpe et al. 2012; Yin, 2009). Documents could be letters, memoranda, agendas, study reports, or any items that could count as stable and unobtrusive source of evidence. This study used various reports in order to collect evidence about supply chain governance, cheese markets, sales other and performance measures. Archival records include charts, catalogues of names, and survey data, yet access to it can be limited. This study utilised archival data regarding key PDO cheeses. Direct observations examine formal or casual activities, yet due to subjectivity of the researcher, the reliability of this method is questionable, thus in this study its usage was limited to observing the purchasing process and discussions about the cheese supply and quality assurance.

Interviews are the main source of evidence in case research (Marshall and Rossman, 2010), therefore, in this study, the primary source of information was the open-ended, semi-structured interviews with key decision-makers. Semi-structured interviews allow covering a specific list of topic areas, with the time allocated to each topic area being left to the discretion of the interviewer and the case setting (Runeson and Höst, 2009). Furthermore, the open structure ensures that unexpected facts or attitudes can be easily explored (Jarratt, 1996). Another advantage is the possibility of making direct comparisons between the answers of the different respondents, thus facilitating triangulation of different sources of evidence (Miles and Huberman, 1994). Interviews took place during the period December 2010 – March 2011 by experienced researchers who had with more than five years professional experience in the food sector and were trained in qualitative research. Interviewees included quality managers, supply or procurement managers, and marketing managers.

Each interview followed the same pattern: each key informant was interviewed once and every interview lasted for approximately 60 minutes. Interviewees had a chance to review the transcripts from the interviews in order to increase the interpretative validity.

The interviews were guided by a semi-structured questionnaire. The semi-structured questions were developed after careful deliberations and examination of the reviewed literature. Although the interviews were treated as a conversation section, the guided interview indicated there was some kind of structured format. Therefore, interviews attracted considerable attention in planning and designing. The semi-structured questionnaire collected data around the following themes: supply chain management, private label, supply chain governance types (spot market, standards, contract, and vertical integration), their functioning, advantages, and disadvantages. Other themes that emerged were also given appropriate attention.

Four cases were concluded each one being a Greek, national retail chain. The choice of companies was made based on the size of their sales, their distribution in the Greek areas their branches, and mainly on their “philosophy”, their reputation for quality, their prices, and the variety of food they offer the market. Table 1 presents the demographics data of the case companies. For confidentiality reasons, cases were given Greek names according to the order they were contacted. Thus, they were named as: Alpha, Beta, and Gamma, and Delta. From each case, at least three managers (procurement manager, marketing manager, quality manager) were interviewed. Interviewees were selected based on availability to participate on the study and their willingness to discuss the specific research questions in depth. Informal discussions with other employees also took place.

To increase reliability and validity, data analysis was carried out as an iterative process. The process was divided into two interconnected stages: (a) within-case analysis which focused on each case separately and (b) cross-case analysis which compound evidence from two or more cases and synthesized the findings of the previous stage. Data analysis for each case involved generating concepts through the process of coding. Inductive coding sought for emergent concepts from the primary data, while deductive coding looked for concepts and variables emerged from the literature review (Janesick, 1994; Strauss, 1987). Information derived from interviews was triangulated with data and information collected from other sources such as reports, publications, on-site observations, and informal discussions with employees and suppliers. All the evidence resulting from the interviews and observations were presented and discussed with reference to literature.

<<Insert Table 1 about here >>

PDO/PGI Cheeses

The production of cheese is one of the most important activities in Greek agricultural economy. Feta is considered as the “national cheese of Greece” covering almost the 70% of the cheese consumption of Greek people. Feta is a soft, white coloured cheese in brine, which is certified as a product of Protected Designation of Origin (PDO). For a geographical product to be entitled to PDO status, it must, among other criteria, fulfil the EU specifications and be produced in a traditional manner within a specific region, in the human and natural environment of which its original characteristics are attributed. The Protected Geographical Indication (PGI) is the name of an area, a specific place or, in exceptional cases, the name of a country, used as a description of an agricultural product or a foodstuff, which is traditionally and at least partially manufactured (prepared, processed or produced) within the specific region.

Average Feta consumption in Greece is the highest in the world, at almost 12 kilos per person per year. Cheese producing dairies are dispersed all over Greece. However, 91% of these enterprises can be characterised as small ones as they process no more than 1,000 tonnes of milk annually (Stochasis, 2012). The demand for regional specialty food and drink products is also increasing. In particular, PL Cheeses sales reached 74.3 million Euros in 2010, a 24.2% increase from the previous year (ICAP, 2012). Sales of branded cheeses reduced by 5.4% in value and 6.3% in volume during the first half of 2010. During 2007-2011, sales of PL cheeses showed a steady yearly growth of 6% in volume (ICAP, 2012). This swift of consumer preference favouring private label cheeses is attributed to the economic crisis and the preference of cheap and/or value for money products.

Private label PDO/PGI Cheeses

The private label PDO Cheeses firstly appeared in Greek market in 1990, yet, only recently achieved a significant market share. Although there are no official data, according to market research companies, PL feta market share was 21.5% on 2010, a significant increase from 18.4% in 2009 (ICAP, 2012). According to the Greek certifying state body (Agrocert, 2012), there are 27 companies certified for PDO trade, specifically: 10 retail chains, 13 wholesalers, 3 dairy industries and 1 cheese processing unit (Table 2).

Sales of packaged cheese have significantly increased from 2000 to 2010 in relation to bulk cheese. In 2000, 95% of quantity of cheese sold was in bulk. In 2007, this percentage dropped to 80% and to 60% in 2011. Cheese in bulk is cheaper than packaged one, which explains the high volume of its sales in early 2000 when Greece where entering the Eurozone. The value of packaged cheese sold was € 210 million in 2008 and in bulk was € 529 million. During economic crisis, packaged cheese was the only category to see its sales was increase by 5%. One reason is that the price spread was reduced from 20.79% for feta and 26,73% for caseri in 2008. As the result, in 2010, sales of packaged cheese increased 9.3% in volume but decreased 7.3% in value.

<<Insert Table 2 about here >>

4. Findings

Firstly, four case studies present the results from the within-case analysis. Then, the cross-case analysis is presented. Table 3 presents the results from the within-case analysis and Table 4 presents the cross-case analysis.

CASE Alpha

The Alpha company, a national retail chain, has launched its first private label products on 1994 and now has 2.300 products in its PL arsenal. Particularly, for the last available 3 years, sales of private label products has a steady growth of 15% in 2009, to 17% in the first halve of 2010 aiming at 20% for 2011. Alpha first included private label cheeses in 2004 and on 2010 it offered 7 PDO cheeses under 14 different types of different packaging and weight.

The suppliers of Case Alpha are cheese producers, either independent farmers or small enterprises. Then, Case Alpha transports cheeses to its own packaging house nearby to Athens central warehouse. The selection criteria of cheese suppliers and their weight respectively were: product quality (80%); food safety assurance (60%); consumers' preference of specific cheeses and tastes (60%); traditional production (40%); farmers

experience (40%). Alpha values its partnerships with small suppliers, thus it invests in developing and training them. Future plans include supply development in order to minimise food risks and foster trust especially among small cheese makers.

The Alpha retailer markets its PL products with a differentiation strategy depending on packaging: for packaged products in vacuum, it brands them as ‘Products of Choice’. Furthermore, Alpha put emphasis on packaging and promotes packaging innovation that guarantees food safety. Alpha focuses also on the brand logo in order to create brand loyalty. During the last two years of economic crisis, sales of packaged feta were reduced, yet the sales of bulk cheeses increased and, therefore, Alpha managed to increase total cheese sales. Alpha sales bulk feta cheaper than packaged feta, a strategy that helped in maintaining market shares in times where consumers’ disposal income dropped significantly.

CASE Beta

Beta retailer offers a wide variety of private label products, which account of 14% of total sales. Beta follows a ‘value for money’ strategy offering quality products at reasonable prices. To ensure quality, Beta retailer has developed a unique quality control laboratory among Greek retail chains, which demonstrates the emphasis that Beta puts on food safety. Beta introduced its private label cheeses with feta in 2006 and its sole supplier is a large producing unit in Thessaly region. The packaging is outsourced to another processing unit located in the same region. For the rest PL cheeses, Beta implements the same policy like Alpha: It receives cheeses from a network of independent producers and then packaging takes place on its own premises.

The main motivation to market private-label feta was its strong demand. Further, Beta sought to build customer loyalty to its own brand. The selection criteria for cheese suppliers were: food safety (60%), modern facilities, preserve tradition (40%) and never breached food quality standards before (60%). The purchasing director argued: “*We give emphasis on food quality and safety. All of our suppliers have a clean ‘criminal’ record regarding food quality and recent investments in modern infrastructure*”. This strategy allows Beta to claim that “*it collaborates only with the best, the masters in their kind*”. In return, Beta offers advice regarding packaging materials that are safe to use, suitable for transportation and warehousing and innovative enough to be attractive to customers and justifies repurchase decisions. Beta managers argued further that the advice from Beta is valuable especially for small producers that operate with diminishing profit margins and seek a large retailer to provide an “*umbrella for sinking sales*” during economic crisis.

CASE Gamma

Case Gamma is a large national retail chain selling more than 2.000 private-label products. Gamma managers reported that private-label food products are marketed as “quality products” in an attempt to foster brand loyalty. Gamma has invested in PL “quality products” and has underway plans to include fresh produce under this label. Gamma’s aim is to expand its private-label arsenal to 20% of total sales. Feta in bulk was introduced in 2003 followed by Graviera Naxou in 2007, yet feta creates more than 80% of total PL sales. In contrast to retailers Alpha and Beta, this retailer reported that there were not strict supplier selection criteria. The required criteria for all producers were food safety certification and modernized producing facilities. The credibility of the producers was an important qualifier factor to do business with Gamma retailer. Gamma also reported that trust and price were taken into account during supplier selection but failed to provide any specific priorities on supplier selection criteria.

Gamma reported that put emphasis on the origin of the products it sells, which helps consumers to associate Gamma with traditional food and ‘Greek’ regions. To this end, Graviera Naxou helps customers in associating Gamma retailer with a Greek island which is well-known for its high quality cheese. Further, selling most of private label cheese in bulk helps Gamma in keeping prices down and differentiates itself as a retailer that supports Greek quality products but at the same time offers competitive prices. As a result, Gamma aims to develop innovative packaging for private label cheeses, especially feta, sold in bowl with salt water. Making the packaging more attractive, easy-to-use will stimulate sales in packaged cheeses without increasing prices, thus Gamma can sustain their competitive advantage of low cost products.

CASE Delta

Delta is established in Salonika and although it has national-wide sales its main sales area is Northern Greece. Delta put an emphasis on products from Greece, thus over 80% of the products the consumers find at Delta’s selves are Greek. Delta introduced private label products in 1998 and today has over 800 private label products. Feta cheese was the first private label cheese introduced in 2008 and it is locally sourced. Feta is mostly sold in bulk (70%), yet there was a 10% increase in bulk feta sales and 20% packaged feta sales in 2010. This increase was attributed to the general trend of consumers towards packaged food products. However, Delta had little innovations to report regarding packaging, which had a traditional style in comparison to other retailers. The strategy of Delta is to use private label cheese to enhance customer loyalty. The marketing manager of Delta argued that “*PL brand is a family of about 800 products which act like sales agents to make customers fell like home, be happy and create repurchase intention*”. Family is a strong value in Greek society especially during crisis times, and Delta, the only retailer in this study which is not located in Athens, seems to turn into family values. Delta reported no specific supplier selection criteria, although certification, constant cheese quality (taste, smell, texture), supplier credibility, and price were mentioned as important. Delta appeared to emphasise supplier credibility since it was explicitly stated that suppliers may be easily dropped if Delta was not satisfied with the quality of the product supplied. To support a zero tolerance on supplier credibility, Delta reported that there are many small and medium-size cheese producers that contact Delta to sell their products, which places Delta in an advantageous position in selecting the best suppliers.

<<Insert Table 3 about here >>

From the data included in in Table 3, it is clear that all companies introduced private label cheeses during the last decade. The motive to launch private label Cheeses was mainly a strong consumer demand, especially for Feta which corresponds for about 70% of cheese consumption. Furthermore, Alpha and Beta have a policy to support and even develop small producing companies. In doing so, they are able to promote themselves as supporters of Greek tradition and Greek products, especially in a volatile era. Delta also invests in the ‘Greek’ PL image. All companies select PL cheeses based on food quality and safety standards, yet Beta focus more on tradition than the other companies. There are significant differences in the supplier selection criteria: while all companies require from their suppliers to implement quality assurance and certification, retailers go beyond that and ask for modern facilities as well as traditional techniques in producing cheeses. All retailers, except Delta, invest in packaging innovations as a means of differentiating their products and reduce in-bulk sales.

Cross-case Analysis

The retailers were asked to report their opinions and remarks about their decisions on supplier selection and how this would affect the way the supply chain operates and performs.

There was consensus that private label impacts the structure and governance of feta supply chain (Table 4). First, branded feta was produced by large, nation-wide manufactures as opposed to private label feta that was produced by small producing units. This shift of producing feta from large to small, bypassing the medium companies, has a direct effect on the structure of feta and cheese industry in the immediate future. Then, long-term contracts, training and developing of small suppliers of private feta implied that this trend will grow in the future. Retailers reported that a 'strong contract' reduces transaction costs to a minimum and protects their profits from instability and risks by future market fluctuations. For example, if the economic crisis continues in Greece, as it is expected to be, the price of feta would increase significantly and unpredictably since it is affected indirectly by factors such as prices in feedstuff, tax, VAT and more. Contracting with small suppliers reduces price uncertainty in retailers, while manufactures still have to deal with it somehow.

Private label gives to retailers the strength to manage the supply chain upstream in more ways than branded products would allow. Supply chain integration is achieved by controlling the food quality standardisation process and well as synchronizing the warehouse and logistics processes by moving processing and/or packaging units close to retailers' main warehouses. The latter seems unrealistic when referring to branded labels: manufactures are usually long established in the capital of large region or prefecture, i.e. Thessaly or Epirus and moving facilities is out of question. Therefore, private label feta has a competitive advantage in synchronising, coordinating, and integrating the logistics and warehouse processes in a most efficient way. This competitive advantage appears also to be sustainable since retailers reported to be ready to commit themselves into medium to long term partnerships supporting small suppliers with training and development.

Standardisation is an area that also attracted attention during interviews. To a large extent, government regulates the standards of being what a feta cheese is and what a PDO product is. In particular, Greece had a long dispute to register feta as a Greek only cheese. Greek food companies should follow these standards to safeguard the Greek label and origin of feta cheese. There are also strict rules about food safety. Standards go beyond product specification and exist also in information management i.e. describing the data exchanged during transactions. Standardisation works well between retailers and manufactures. However, contracts allow the trading parties to cooperate for things that are hard to regulate. For example, innovation in packaging is an area that contracting parties can collaborate and in this way the supply chain becomes more integrated. Collaboration in innovations such as packaging requires a certain degree of commitment and investment which is hard to find within the context of retailer-manufacturer relation. In contrast, the risk in a retailer-small supplier relation is perceived as more manageable and risk-averse.

Manufacturers have achieved to establish well-known brand names and therefore retailers prefer to have a long-term relationship with them, despite the price competition and antagonism in other business issues like promotion and distribution. This long-term vision creates a need for supply chain structures that are more permanent than temporal and fosters integration of logistics functions, streamlining warehouse and transportation

operations and achieve a consensus on distribution parameters like volume, packaging, and time. The complete logistics system including warehousing, transportation, and inventory needs to be both effective and efficient. On the other hand, private label creates a need for retailers to commit themselves to medium and/or long term partnerships with small suppliers via suppliers' education, training, and development. Furthermore, private label packaging is not taken place in remote locations of manufacturing sites but packaging facilities move closer to retailer's warehouses located near to cities. The change of packaging affects transportation since logistics operations are usually outsourced outside large cities (Athens and Salonika).

Risk management also affects supply chain integration. Food marketplace is characterized by intense competitive pressures as well as high levels of turbulence and uncertainty especially in times of economic crisis and currency uncertainty. Disruptions in the supply chain may challenge the supply chain integration and test long-term relationships. Effective demand forecasting can produce fruitful results in anticipating demand fluctuations and prevent them from creating disruptions upstream in the supply chain. Retailers need to micro-manage small suppliers by setting key performance indications to reduce risk in producing and delivering quality food products. By doing so, they are able to avoid supply chain fluctuations and balance demand and supply, which makes private label products preferable to branded products since manufacturers rely on long-term contracts which may not mitigate risk effectively.

Retailers argued that the performance of supply chain from farm-to-fork was another advantage of private label cheeses. Specifically, the overall supply chain cost is reduced under a private label scheme due to cost reductions in logistics and advertising. Due to economies of scale, production cost would be higher for small producing units in comparison to large manufactures, yet the traditional production of feta requires small production quantities and facilities that a small or medium company can afford to operate. Therefore, cost of private label food was considered as the most significant factor to contribute to the supply chain performance.

The consumer preference to in-bulk feta, which is cheaper than packaged feta, is another factor that places manufactures in a disadvantage position: retailers sell their private label in-bulk cheeses in order to create market loyalty and then expand their sales to packaged cheeses, particularly feta, which is more profitable. Economic crisis was a major boost for low-cost popular feta cheese, including in-bulk sales of PL cheeses which promote retailer brand name. Thus, the introduction of private label products in popular cheeses like feta can affect total volume sales and the market share pie of top companies affecting indirectly the supply chain operations and performance nationwide.

<<Insert Table 4 about here >>

5. Discussion & Conclusions

Evidence from case studies provides insights of the importance of private labelled food in managing and controlling the supply chain. The introduction and the development of private labels are closely intertwined with the competition between retailers and manufactures as well as the related governance mechanisms of power and contracts. During the decade 2000 – 2010 many retailing and trading companies included cheeses in the Private Label arsenal.

Adding cheese and feta particularly in private label arsenal has allowed the large retail chains to show their active support and trust on Greek cheeses and their producers. Retailers reported that one of the best ways to communicate their support to Greek products and Greek tradition was to support PDO food and especially products like feta cheese which is popular among Greek consumers. Therefore, adopting cheeses among their Private Label product line has fostered brand loyalty and in turn increased sales. Amid a severe economic crisis, increase of sales is considered as a competitive advantage particularly when branded products see their market shares to fall.

There is a clear indication that private label as the preferred consumer choice has a direct impact on the supply chain governance mechanisms. Evidence include the increased use of contracts with small suppliers, the development of new processing, packaging, and warehouse units in areas close to the retailers, and the adoption of food safety and quality standards imposed by retailers in excess of governmental standards. The above evidence indicates that there is a move the supply chain governance from market to hierarchy status. Further, evidence indicates that supply chain perform better in terms of supply chain cost, food quality and consumer satisfaction. However, the return on investment on the new supply chain governance mechanism was not measured and therefore it is unclear to report concrete financial benefit from it. Regarding the governance structure, retailers take benefit of the low supplier competence in terms of volume, and at the same time take advantage of the complex consumer needs to build control mechanisms via contracting and supplier development. A sort of transactional dependence is developed as retailers choose to invest on their relations to small suppliers in order to safeguard the traditional nature of the feta product. In an area of crisis, small producers and processors find that retailers are one-way path to end consumers. This type of governance reduces the complexity and variety of tasks that small suppliers have to do: they only need to focus on producing excellent traditional feta cheese. Retailers take control of the rest including product design, logistics, component purchasing, packaging, innovation, food quality and safety. This is reflected in the supplier selection criteria: compliance to quality assurance standards; high and consistent product quality; organoleptic characteristics and taste in particular, which notify region of production; modernisation of processing facilities; implementation of legislation; credibility; experience; and reputation.

Packaging is used as a means to differentiate private label cheeses from branded ones. Retailers are investing in innovative packaging that is customer friendly and helps building brand loyalty. There is another reason for using packaging as a competitive advantage. Many consumers prefer cheeses and feta in particular in bulk than in bowl, yet products in bulk cannot stimulate brand loyalty neither allows the consumer to associate the product with the retailer. Bulk cheeses are difficult to be branded and therefore cannot reinforce loyalty. On the other hand, bulk cheese is cheaper, therefore there is a trade-off between price and brand loyalty that retailers need to decide when developing private label. Therefore, low-cost, private label packaged cheeses have become are a priority for retailers. Moreover, cheese processing units and manufactures of cheese selling it in bulk are at weak position as consumers find it hard to associate their products with their brand names.

The introduction of private label cheeses favoured small and dynamic cheese processing units over larger units (in most cases, larger units are medium sized enterprises or union of cooperatives). This has a direct effect upon the industry structure (Ward et al., 2002). Apart from feta cheese which has strong sales, other PDO cheeses are produced by medium sized enterprises or union of cooperatives in relatively small

volumes. The introduction of private label PDO cheeses is a real threat to the survival of these regional-wide PDO companies.

Long-term contracting with small suppliers reduces price uncertainty in retailers. Retailers seem to trade off lower producer prices with long-term purchases of private label cheeses, leveraging these contracts with training and development. This type of collaboration implies an evolution of supply chain governance from standardisation of transactions to supply chain integration. Although interviews were conducted only with retailers, both parties, retailers and small cheese producers, seem to benefit from this type of supply chain governance. Private label gives to retailers the strength to manage the supply chain upstream in more ways than branded products would allow. PDO is already standardised by external parties therefore facilitate contracting and even further vertical integration. Contracts allow the trading parties to cooperate for things that are hard to regulate including packaging, innovation, and logistics.

Vertical integration acted as a protecting shield in economic crisis since fluctuations in demand did not create disruptions in the supply chain. Other the other hand, manufacturers had to deal with declining sales and consumers turning to low-cost products, which is the market for private label food. Since the supply chains of private label products perform better by being cost-effective offering lower prices at the retail stores than the branded manufactured counterparts, the supply chain governance is also affected by moving from standards to contracts and further to vertical integration. This type of governance put pressure to manufactures than need to change their strategic plan and focus more on vertical relationships across the supply chain and integrate better upstream and downstream in order to sustain supply chains than perform as least as good as the private label supply chains. Long-term contracts, training and developing of small suppliers of private feta implied that this trend will grow in the future.

The main contribution of our work is to recognize the role that private label products play in supply chain governance. Existing literature has not examined how supply chains have evolved over time from spot markets to higher levels of hierarchy of supply chain governance. This study highlights the role of private label products as a mechanism to create supply chain integration types that favour direct supply from producers overpassing large manufactures. Although small processing may have higher per-unit production cost, supply chain governance offers substantial benefits for both retailers and producers. Therefore, the implications of this study span to the whole spectrum of the supply chain: Retailers can manage their private label brand in a way to utilise the repercussions of supply chain governance type upon competitors, both horizontally and vertically. Specifically, retailers benefit from the standardisation of products and transactions including the PDO products that are already standardised and certified by external bodies. Product standardisation offers the opportunity to manage supply chains using direct supply based on contracts and standards. The next step is to invest on partnerships by training and developing small-sized suppliers thus creating long-term business relations and coordinated supply chains. The implications of supply chain integration to small producers can be profound: more often than not, they are located in remote, regional places with disadvantage access to market. The hierarchical type of supply chain governance offers them an channel to market their products without the risk of lost or postponed sales and at the same time develop themselves by allying with a large, often multinational, partner. Furthermore, supporting regional, food companies has also social implications since supply chain integration creates externalities for regional development, generates jobs, supports employment, and preserves the traditional style of products. Food manufactures that benefit from

standardisation and contracts may find supply chain integration having repercussions in the supply chain performance of their products. Specifically, private label poses an impediment to the coordination of the supply chain by manufacturers. Therefore, in order to optimise supply chain operations, manufacturers would need to adapt two different supply chain governance mechanisms: supply chain integration upstream and contracting downstream.

Limitations & Recommendations

The exploratory nature and use of case study research are the major limitations of this research. Case-study research is often considered as being less valuable than quantitative studies since findings cannot be generalised from a single case to a population. Although, statistical significance is powerful, the practical knowledge derived from case-study research can be more valuable than theoretical knowledge. In order to overcome the inherent limitation of the specific research design, a quantitative study using a survey could offer insights for the population.

The findings are bounded within the context of Greek cheeses and therefore, a study of EU food sectors could shed light on the supply chain governance in a far wider context than the one that this study was conducted to. Nevertheless, this study may serve as a significant starting point for future research and analysis related to supply chain governance. In particular, a future direction of research could be (a) to include processing and manufacturing units in the research design and examine to what extent private label has altered their supply chain strategy and performance (b) The generalisation of results using a survey of a large set of companies operating in different industries in order to validate the different types of chain governance as well as their impact on supply chain performance.

Conclusions

All retailing companies reported that the introduction of private label food had an effect on supply chain governance by outsourcing production to small producers or processors. In doing so, they are able to skip the large national dairy and feta manufacturers, which was the dominant player in this traditional PDO product. The consumer preference for in-bulk feta instead of packaged one was turned against branded feta producers sold by large manufacturers since they were not able to establish a brand loyalty by producing in bulk. Instead, retailers were able to reduce transaction costs by standardising quality and processes and re-designing the complete logistics system that supported the production of both in-bulk and processed feta. After establishing themselves as a significant player, they aimed to gain control of packaged feta products market share, an achievable goal in various ways. The result of the above supply chain evolution was a swift transition towards a two-member supply chain: large retailers and small producers, singling out the so-far established manufacturing companies that have had heavily invested in product quality during the past decades. This governing mechanism has the advantage of improved supply chain integration: retailers set forward standards and procedures, in some cases supported by training and development of small suppliers, which allows the better coordination and synchronisation of the supply chain. Further, the logistics system was re-organised by retailers based on Athens, creating new warehouse and processing units near to their central warehouses.

Despite the crisis, Greeks don't seem willing to change their habits and their preference to feta cheese but they look for cheaper ways of keeping their habits. Retailers seem better positioned to govern this change through by extending their partnerships and gaining more control over the supply chain.

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