

Marketing local products Short and long distribution channels



LIAISON ENTRE ACTIONS
DE DÉVELOPPEMENT
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LINKS BETWEEN ACTIONS
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**Marketing
local products
Short and long
distribution channels**

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*N.B.: Many of the examples cited in this dossier refer to measures and/or businesses that are presented in more detail in the directory “**Innovative Rural Development Actions**”, published by the LEADER European Observatory in 1997, and in the “Actions” database on the Rural-Europe Internet site. Production coordination: **Christine Charlier**.*

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“Short” or “long” distribution channels?

What a long way we have come in such a short time! Looking back we can see the scale of the revolution that has taken place in only 20 years.

In 1980, local agribusiness products, whether “farmhouse made” or “made by traditional methods”, were at the fringes of the mainstream food sector. In terms of production, local product development and farmhouse processing were chiefly concentrated in mountain areas, where people in the agricultural sector were required to counterbalance their natural handicaps by taking a “*quality added value*” approach, a typical example of which was farmhouse cheese [1].

By the late eighties, although promoting local products was considered to be a natural asset for Europe’s disadvantaged regions, any talk of collective approaches and business professionalism was seen as totally futuristic at the time. In those days, the key commercial concept was local direct selling.

Over recent years, the pace of change has accelerated as a result of rising demand coupled with rapid agricultural developments. Consumers have shown their increasing relish for products associated with a specific local region that are of distinctive quality, healthy and not only tasty, but also a source of pleasure and a little fantasy.

This stems from the urge of urban consumers to compensate for the stresses of modern living, the increasing uniformity of lifestyles and consumer patterns and environmental problems. A string of incidents, associated in particular with the uncontrolled use of animal feedstuffs, has served to accelerate and heighten the self-preservation instincts of consumers, who more than ever are demanding assurances as to the origin and traceability of the food they eat.

At the same time, changes in agriculture have intensified:

- > lower prices for ordinary products;
- > increased dependence on farming subsidies, which are due to be gradually phased out over time;
- > inexorable decline in jobs;
- > reduction in the number of farms.

So, in spite of the inertia exerted by ingrained habits, voices are starting to be heard loudly and clearly proclaiming that, although Europe’s rural areas have structural handicaps when it comes to ordinary goods (which can always be produced cheaper elsewhere), they have at their disposal a whole range of traditional resources waiting to be exploited, for which a ready market exists.

This aptly highlights the value of the triangle of territorial identity / breed or local variety / human input and know-how. In other words, now there is a growing awareness of the resources available in rural areas, animal breeds and plant varieties on the verge of extinction are being regenerated and these resources are being exploited to improve the quality of life.

An analysis of a number of cases has produced the following figures. In France, for example:

- > the value of a litre of milk increases by a factor of 2 to 4 when it is processed as farmhouse cheese;
- > processed farmhouse pork is worth EUR 6.40 per kilo carcass weight, compared with EUR 0.80 for conventional pork;
- > diversified situations and products lead to one agricultural job per 10 hectares in a disadvantaged area, whereas on large-scale farms on nearby irrigated plains the typical figure is now less than one job per 150 ha.

Exploiting local potential (sometimes known as “valorisation”) is an approach that was derided and considered marginal until only a short while ago. Now it is on the way to becoming a strategic goal for large sections of many European regions.

The goal of exploiting available resources does of course mean resolving numerous problems and means that farmers will need to learn new skills, such as processing techniques, compliance with EEC plant health standards, marketing and management skills, and so forth.

However, this is no longer enough on its own because, although up until now it has been possible to make do

[1] Daniel Pujol, “The collective organisation of a sector for the local valorisation of agricultural resources: the example of cheese processing” (LEADER European Observatory/AEIDL, 1997).

with small-scale individual solutions for supplying a niche market, things are now changing. Many of the numerous surveys carried out into the consumption of farmhouse and local products, as well as into potential consumer demand for organic products, point to a possible market share of 30%. The diversified range of products involved is therefore no longer aimed at a market niche, but at a market segment (itself segmented) that is now highly coveted by manufacturers and distributors alike because of its potential for growth and added value.

In economic organisation terms it is therefore easy to see that the issue can no longer be approached in the same way as in the past. It has become more important than ever to create structure and professionalism.

This is all the more necessary since the distribution scene has changed radically in just a few years. Mass retailing has escalated dramatically and in some countries mass retailers have swallowed up between 60%

and 80% of the food distribution sector. Mass retailers have become highly concentrated and have centralised their buying. They impose their own laws because they are in a position of dominance over the large and small suppliers who have come to depend on them.

To counteract such centralised buying, the solution is to group supply, standardise quality and professionalise services, which are all elements that are changing recent habits.

This does not preclude direct selling or “short” distribution channels, which satisfy the desire of urban consumers to know exactly who the producers are. That is why there is greater potential today for direct farm sales, “farmers’ markets” and collective points of sale for farmhouse products.

TWO TYPES OF DISTRIBUTION CHANNEL BUT MANY FORMS OF MARKETING

“Short” distribution channels	“Long” distribution channels
<ul style="list-style-type: none"> > Selling direct from the farm or the place of production, including selling to tourists > Mail-order selling > Selling over the Internet > Producers’ shop > Home deliveries > Selling to local restaurateurs > Selling to businesses > Selling at fairs, local markets, shows > Selling by the producer, on a separate stand, in local hypermarkets 	<ul style="list-style-type: none"> > Selling from hypermarket and supermarket shelves > Selling to wholesalers > Resale to retail merchants > Export

**So, what should it be,
“short” or “long” distribution channels?
The answer, of course, is both.**

Both distribution channels are necessary and complementary and they provide solutions to a wide range of situations, suited to the type of product (fresh products versus preserved or dried products, for example) and to the type of geographic region. In the typical case of farmhouse cheese, two examples aptly illustrate this:

- > Idiazabal cheese from Spain's Basque Country is produced in small quantities (600 tons) for a large consumer pool (2.5 million inhabitants). In this case, only direct selling and short distribution channels are used.
- > The cheeses from the French Pyrenees and Portugal's Castelo Branco are produced in significant quantities remote from any consumer centres. This makes national long distribution channels necessary in the case of both countries.^[1]

Attempting to lay down doctrine would be to over-simplify the issue. The diverse solutions available to cater for the many different scenarios encountered are a valuable, not to say necessary, asset. This is why nowadays it is necessary to develop and professionalise not only short distribution channels for local products - on an updated, modernised basis - but also long distribution channels - supplied by collective structures that have achieved the necessary threshold of viability.

The objective of this dossier is therefore to:

- > enable LEADER local action groups (LAGs) and other local players to explore the potential of both types of distribution channel for developing their area's products;
- > facilitate the choice of appropriate methods for marketing products via short distribution channels or long distribution channels;
- > encourage progressive risk-taking and risk limitation by carrying out a market survey in all cases where the investment warrants it;
- > define the basis of a marketing strategy, via short distribution channels or long distribution channels, that exploits the potential of the area/communities/products triangle, thereby promoting the development of activities that cannot be relocated because they are tied in with the specific resources and know-how of a local region.

[1] Daniel Pujol, op. cit.

Section 1

Marketing local products via short distribution channels

Chapter 1

A few general factors

A few general factors

New consumer trends, which are leading people to seek healthier, more natural products whose identity is associated with an area (mountain, protected area, etc.) are opening up new market opportunities for rural products.

1.1 Short distribution channels, opportunities for enhancing added value

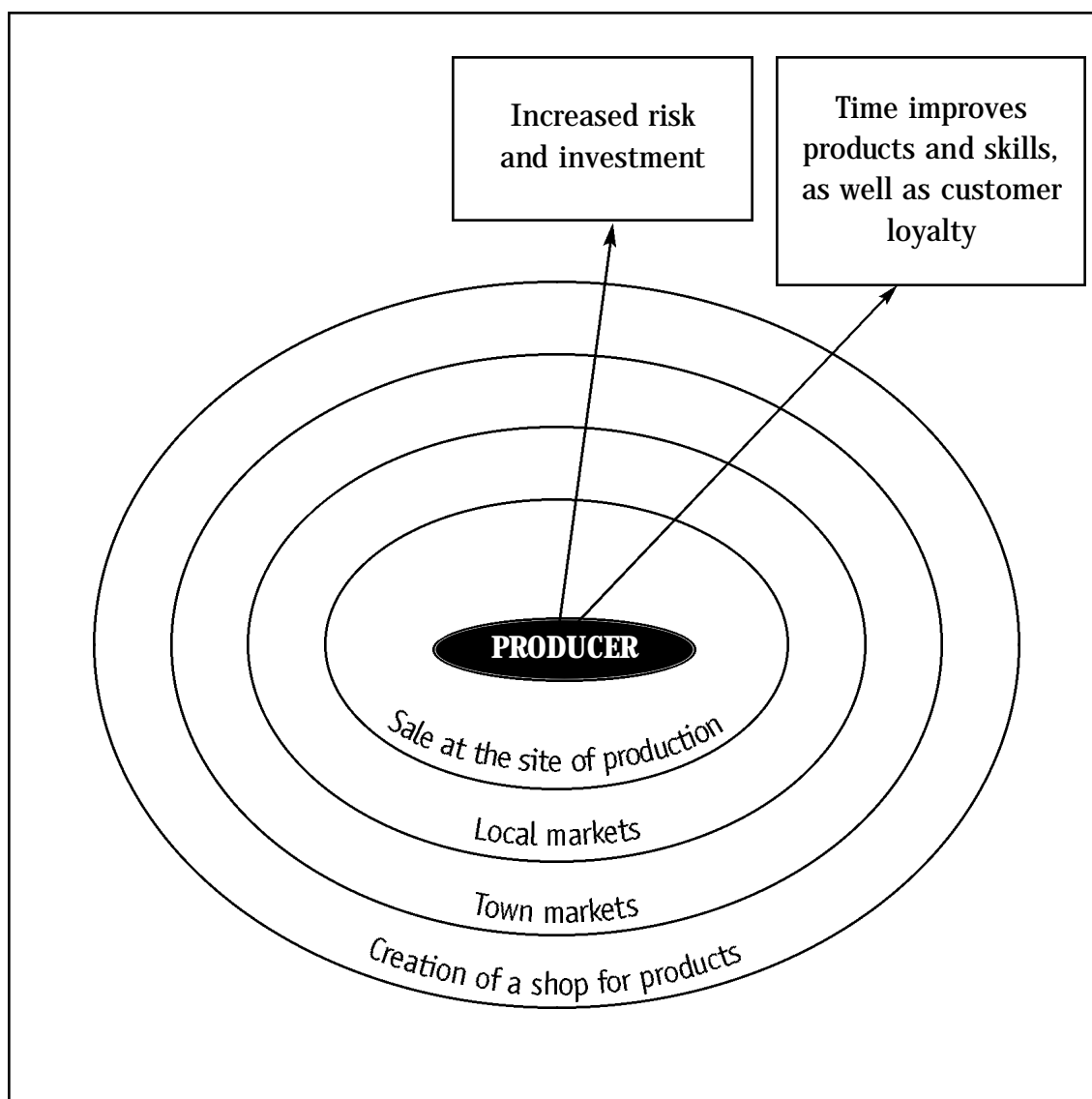
“Short” distribution channels enable producers to cut out the intermediaries between producer and consumer. The shortest distribution channel is therefore one in

which producers sell their product direct to the consumer (direct selling).

Short distribution channels provide opportunities to create added value in the area and to emphasise the distinctiveness of its products. As a result of the close ties created between area, customer and product, such forms of selling **make it even more difficult to relocate local products**.

However, in order to market products via short distribution channels, the only way to **minimise the risks** of embarking upon initiatives that have no future and are costly in terms of investment is to adopt a rigorous approach.

THE GRADUAL APPROACH TO MARKETING



1.2 A gradual approach

A gradual approach – which is often possible in this case – is one of the keys to success. This means making the heaviest investments only after the products, customers and producers have been matched through small-scale initiatives.

Ideally, a gradual uninterrupted approach is the very best formula, but in practice, where there is not enough consumer potential in the production area, the solution is to go immediately in search of urban customers, either via short distribution channels (shops) or long distribution channels, as is often the case.

In developing these activities **a formal market survey is an essential next step** after the test phase. Although the assistance of an external consultant can be very valuable at this point, not many consultants are able to carry out a simple survey that is both inexpensive and integrates the maximum number of producers into the process. Taking the advice of colleagues who have already undertaken this approach, through regional or national networks or the LEADER European network, for example, saves time and targets the search more effectively.

In view of the special characteristics of rural areas, most large-scale initiatives are carried out collectively. In fact farmers and craft workers rarely have the means to develop the product ranges and make the necessary investment on their own. This is particularly true when it comes to reaching urban markets which, in quantitative terms, form the largest market in Europe today. So, one of the important roles of support structures like LEADER local action groups is to **guide and assist collective players** right through to the project development phase.

Lastly, developing such activities calls for **a continual-evaluation approach**. This means devising and recording the appropriate indicators (turnover for each product, number of customers, etc.). This provides the working basis that will guide future actions.

1.3 Capitalising on geographical or cultural proximity

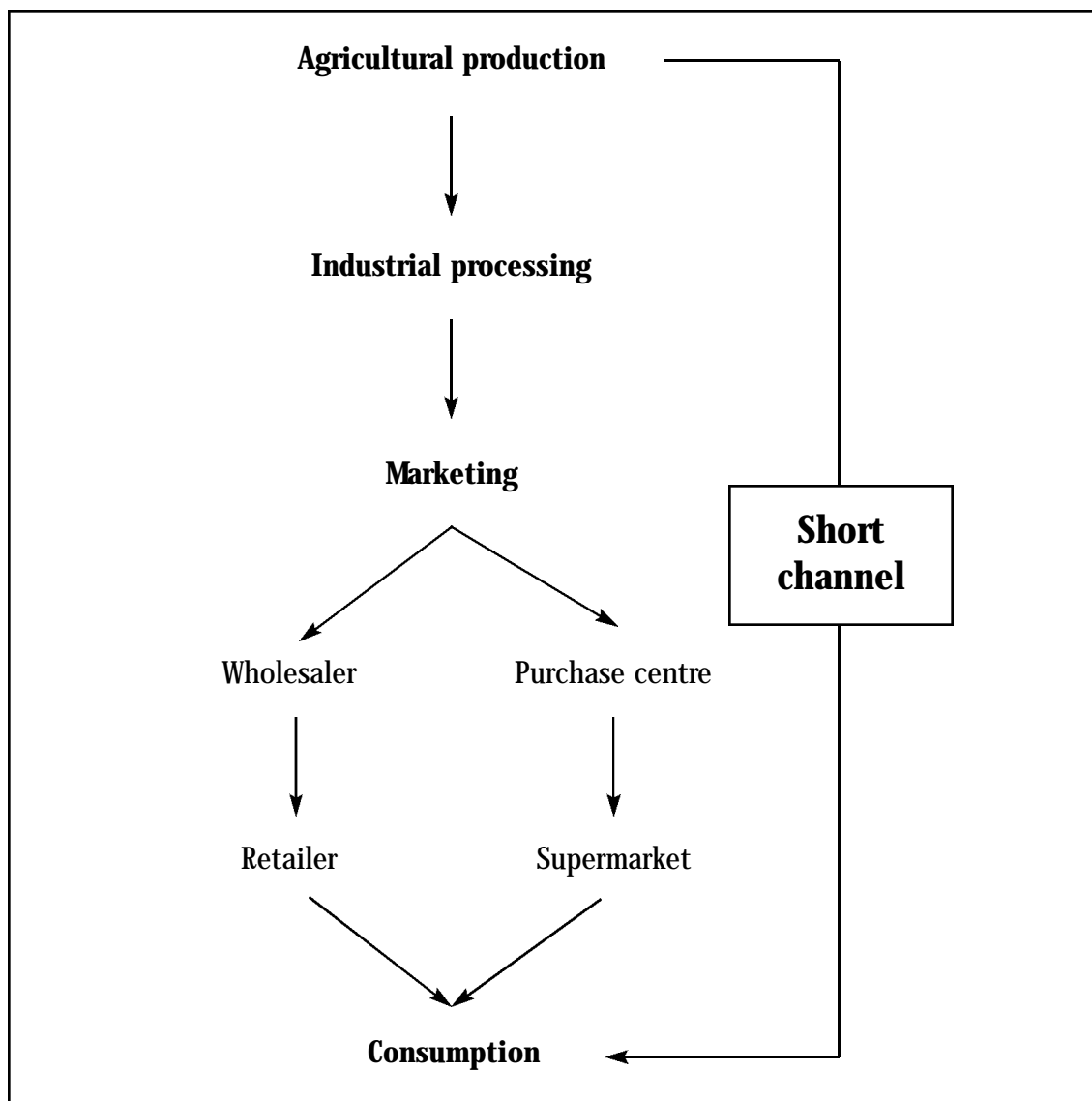
Selling via short distribution channels takes advantage of nearby cultural and/or geographical markets: local consumers, tourists staying in the area and emigrants originally from the area are all potential customers for direct selling. Producers use their own social network to refine their perception of the demand. It is an easy form of marketing, at least during the initial development phases. The aim of selling via short distribution channels is to raise the selling price and hence farm revenues, and since selling activities are carried out locally, this helps to keep jobs in the area.

1.4 Recognising the distinctiveness of an area's products

Certain local products are distinctive: they are the result of special historical, geographic or agro-climatic conditions or of a specific production method. Nevertheless such distinctiveness is not necessarily properly promoted by traditional distribution channels, or perhaps not at a remunerative price. By fostering direct contact with the producer (or the area, via a local shop), direct selling makes it possible to explain such distinctiveness to the consumer and thereby enhance its value in the consumer's eyes.

The area and its potential are promoted through local products. Explicitly signalling their presence in the shop is one way of raising awareness among the public – both visitors and the local population – about the very existence of the area, its value, its culture and its distinctive products.

DEFINITION OF A SHORT DISTRIBUTION CHANNEL



SHORT AND LONG DISTRIBUTION CHANNELS: A QUESTION OF INTERMEDIARIES

Throughout their journey from producer to consumer, raw materials are subjected to a succession of processes and procedures by intermediaries who share out between them any added value on the product. The shortest distribution channel is “direct delivery to the consumer”, where producers themselves sell their products, processed or otherwise, to the final consumer.

At the other extreme, one of the longest distribution channels is that of conventional agro-industrial production. This is where the farmer produces the raw material; this is then processed into food products by multinational industrial groups; and finally the result-

ing standardised products are sold to the purchase centres of leading supermarket and hypermarket chains. **The terms “long” and “short” distribution channel do not refer to the physical distance between producer and consumer, but rather to the number of intermediaries between producer and consumer.** For example, if a producer goes into town with a van to sell his product directly from a hypermarket stand, he is selling via a short distribution channel. There is a series of alternatives between the two extremes, in which producers deliver their product to the consumer more or less directly, sometimes through the intermediary of a restaurant or cooperative shop.

Chapter 2

Conditions for success

Conditions for success

More often than not, the development and successful outcome of initiatives to market local products via short distribution channels calls for six key points to be taken into account.

2.1 Realistically assessing the volumes that can be sold via short distribution channels

The volumes that can be sold via short distribution channels depend on the type of distribution channel. In the case of direct farm sales in France, for example, it is estimated that a customer generally travels within a radius of less than 20 km to buy farmhouse products. In the case of the combined sale of tourist products from the farm, in essence it is not even a food product that is being sold, but rather a cultural or tourist product.

2.2 Developing collective action

Individual initiatives often quickly come up against their limitations and, what is more, it may be advantageous to set up a range of products. Direct farm sales of a single product rarely earn more than a few thousand euros per year for the farmer concerned, whereas the turnover of a collective point of sale, offering a range of farmhouse products, can attain several hundred thousand euros shared between ten or so farmers. The grouping and collective commitment of farmers and/or craft workers makes it possible to market a diversified product range, maintains motivation over the long term, limits the financial investment of each producer in developing a new distribution channel and strengthens solidarity and social cohesion in the area.

With the collective approach, it is a good idea to call on support structures to guide and assist the group of producers through their project, since the process is complex and comprises several stages, with individual interests and objectives having to be adjusted to suit a collective approach.

2.3 Harnessing commercial skills to develop direct selling

In the initial stages, it is generally possible to sell via short distribution channels without making any significant commercial investment. Producers can take care of the selling side themselves from the farm premises or at an open-air market. However, as soon as investments are envisaged – in order to fit out a shop for example – commercial and management skills as well as formal market surveys are required. Furthermore, the motivation of the producer is vital: direct selling calls for the involvement of one or more people who have made it their job and have acquired the requisite skills.

2.4 Ensuring product quality

Product quality is a decisive factor. If the product is poor, no form of sale will be effective, nor will there be customer loyalty. In the majority of cases, improving the objective quality of the product AND matching it to the expectations of the consumers at whom it is aimed (uniformity, packaging, etc.) are prerequisites for the development of distribution channels. For a producer acting alone it is not easy to take an objective view of the product by setting aside all mercenary or emotional considerations. An outsider (specialised consultant or, very often, the customers themselves) will frequently be better at capitalising on the distinctiveness of the products for new consumers.

THREE EUROPEAN QUALITY LABELS

In 1992, the European Community implemented a regulation aimed at promoting the quality and distinctiveness of certain agribusiness products.

The regulation relating to the protection of geographical indications and designations of origin for agricultural products and foodstuffs [regulation (EEC) no. 2081/92], as well as the regulation relating to certificates of specific character for agricultural produce and foodstuffs [regulation (EEC) no. 2082/92] are two pillars of this European quality policy.

Pursuant to this regulation, more than 500 products benefited in 1999 from one or other of the following three European labels:

- > **“Protected Designation of Origin” (PDO)** refers to foodstuffs produced, processed and prepared in a specific geographical area by making use of recognised know-how;
- > **“Protected Geographical Indication” (PGI)** refers to products for which there is a geographical link during at least one of the three stages of production, processing or preparation;
- > **“Traditional Speciality Guaranteed” (TSG)** refers to products that are traditional either on account of the ingredients of which they are composed or on account of their method of production.

In 1998, the Commission launched a campaign to raise the awareness of producers, retailers and consumers about these labels. The campaign resulted, in particular, in the creation of logos identifying each of the three product categories (PDO, PGI and TSG). They can be accessed at Web site:

http://europa.eu.int/comm/dg06/publi/review98/p09_en.htm

2.5 Adopting a gradual approach

As far as possible, a “step-by-step” strategy using successive forms of selling, starting with the markets that are easiest to reach with limited funding, makes it possible to overcome obstacles progressively. It allows time for products to adapt to customer expectations, for production to overcome its early teething troubles and for producers to test their selling abilities on a real-life scale.

Prior to taking any investment decision it is advisable to carry out a market survey, whilst continual monitoring of demand makes it possible to periodically adjust supply and to start up new initiatives.

2.6 Designing new products

By considering an area, its local communities and its products as a whole, it is often possible to create new products or services incorporating some sort of service that brings added value to the area. Associating fun and enjoyable activities with discovering a product, production method or area, or passing on product knowledge and culture can provide a wealth of opportunities. One key task is therefore to work out at the project design stage exactly where the players involved will recover, in terms of turnover or services, the effort invested in organisation.

Chapter 3

Which clientele? Which strategy?

Which clientele?

Which strategy?

Short distribution channels are aimed at a special type of consumer, whom it is important to know thoroughly and to target carefully if this form of marketing is to succeed.

3.1 Clientele

Nowadays the majority of consumers buy from hypermarkets. However, certain categories of consumer do not fall into this general trend, at least for certain products, or during their holidays. So we are talking not about mass markets but about niche markets.

The potential customers of short distribution channels are found among:

- > **local communities;**
- > **emigrants originally from the area;**
- > **tourists;**
- > **urban consumers.**

Each of the above types of clientele has its own specific eating and buying habits, and so the forms of selling must comply with these.

3.1.1 Local communities

They are the primary clientele for local products.

Being close, both culturally and geographically, to the production site, they have been accustomed to consuming the product since childhood. However, the local market has its disadvantages, in particular the invariably limited quantitative potential, due to the low population density in most rural areas and to the scattered clientele. This has led to the development of solutions of the “mobile unit” type, especially in Spain and France. In addition, products are sometimes undervalued locally, or may even have become obsolete in favour of standardised industrial products. It is therefore important to enhance their value in the eyes of the local population.

EXAMPLE

The “agroshops” of the Vall d'en Bas area (Catalonia, Spain)

With the dual aim of giving farmers better returns and funding the technical assistance it provides to its members, the agricultural cooperative of the Garrotxa region, “S.A.T. La Vall d'en Bas”, has opened up four shops, each with a surface area of around 100-150 m², including one in the covered market of the provincial capital, Girona. It has also put into service a mobile unit which tours markets where it sells craft and food products (including fresh fruit and vegetables), not only from cooperatives in Catalonia, but also from other Spanish and European regions.

For a more detailed description of this initiative, see the directory “Innovative action programmes and rural development” (LEADER European Observatory).

Modernising traditional short distribution channels in “Terra Quente Transmontana” (Nord, Portugal)

Since 1991, the LEADER group – the local development association Desteque – has based part of its strategy for revitalising the area on improving economic conditions for selling local products and services direct to consumers. In fact, in this region, direct farm selling of products represents between one third and one half of the production of products such as olive oil and delicatessen meats. The LEADER group is striving to improve the commercial presentation of the products sold direct, in particular through a process of labelling and the introduction of special packaging, as well as by setting up a local certification body. Moreover, the creation of centres of attraction for direct selling (such as the “Hunting Festival” or setting up points of sale at tourist sites) makes it possible to target customers with higher purchasing power.

For a more detailed description of this initiative, see the directory of “Innovative action programmes and rural development” (LEADER European Observatory).

3.1.2 Emigrants originally from the area

Though geographically remote, they remain culturally attached to the region. They like the taste of local products and are accustomed to their appearance. They buy the products when they return to the area on holiday but may be willing to procure them all year round, provided that the products keep well or that a regular supply chain is available. Emigrants buy wines and certain other regional products in large quantities and consume them throughout the year.

Slightly higher prices can be charged, provided that the service offered is better than using personal channels – friends, relatives or acquaintances. Also, not all emigrants have retained such informal channels and this particular pool of regular consumers is worth prospecting.

EXAMPLE

Vinho Verde Festival of Basto (Nord, Portugal)

Faced with the dilemma that whilst local wine production was rising in terms of both quality and quantity, wine consumption was tending to decline in favour of new beverages such as beer, the Basto LEADER group decided to organise an annual wine festival in order to boost traditional wine consumption. This festival is held during the summer to coincide with the return of emigrants on their annual holidays.

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3.1.3 Tourists

Although these potential customers stay in the area during their holidays, they are culturally removed from it. They do not necessarily appreciate the taste of local food products because they find it unfamiliar.

The first step is to point out the local specialities to tourists. By advertising the products in shops, using them in restaurants, explaining their history and production method, offering tasting sessions in pleasant settings, etc., tourists learn to like the product.

EXAMPLE

Bringing together farmers, restaurateurs, tourist operators and local authorities: “Natur und Leben Bregenzerwald” (Austria)

In order to satisfy the growing appetite of consumers and tourists for local products, the association “Natur und Leben Bregenzerwald” set up a cooperative project to bring together producers, restaurateurs, tourist operators and local authorities in the Bregenzerwald LEADER area in order to expand the local market for products through closer collaboration between producers and hotel-keepers. The restaurateurs have therefore included many local products in their menus, on each occasion indicating the name and contact details of the producer concerned.

For a more detailed description of this initiative, see the directory of “Innovative action programmes and rural development” (LEADER European Observatory).

Some products need to be adapted before they feature in the consumer habits of tourists. For instance, putting a little holiday “souvenir gift” in a pretty package makes it possible to charge a higher price. However, it may be necessary to consider packaging and packing the product in such a way that it can be stored and transported on pallets. Rigorous attention must be paid to hygiene. For instance, in the case of sweet chestnut flour, it is sometimes preferable to use polyethylene packaging that is resistant to the transmission of odours or attack by insects, rather than more aesthetic bags made from kraft paper. Tourists are highly sensitive to such matters of hygiene, particularly in northern Europe.

However, the tourist market remains limited. It is generally seasonal or only at weekends. Nevertheless, for products that keep well, customer loyalty to the product and to the area can be encouraged through distance selling.

EXAMPLE

Mail order sale of products by the group “L’Or Vert du Magnoac” (Aquitaine, France)

Farmers and producers of foie gras belonging to a cooperative for pooling farming equipment (CUMA) have created a joint structure to market their product directly. The association, called “L’Or vert du Magnoac”, chose to focus on short distribution channels which permit direct contacts with their clientele. It develops loyalty from its tourist customers through a system of mail order selling.

For a more detailed description of this initiative, see the directory of “Innovative action programmes and rural development” (LEADER European Observatory).

3.1.4 Urban consumers

This is a market with lots of potential. Nowadays, the great majority of Europe's population lives in urban areas and, quantitatively speaking, they form the major food markets. For city-dwellers the lure of nature, intensified by concern about the recent "mad cow" disease and dioxin poisoning crises, is leading to a growing demand for "natural" products.

Within this marketing rationale, it is possible to envisage a shop for local products, either in town or in another highly frequented place. This type of initiative almost always has to be collective in nature, because the investment is significant and a formal market survey is required not only in order to evaluate the chances of the operation succeeding, but also to cement together the group heading the project.

EXAMPLE

"Unifermé": a supermarket selling farmhouse products situated 40 km away from Lyon (Rhône-Alpes, France)

A dozen farmers in the Lyon region have created a proper little supermarket for farmhouse products. It sells a full range of quality food products for family meals and entertaining: vegetables, fresh dairy produce and cheeses, meats, canned food, wines, etc. Consumers from the nearby city of Lyon go there to stock up at weekends. The experiment began in the late 1980s. Gradually, the shop and its turnover grew, with the result that ten years later it had become a small supermarket with a turnover of around 11 million euros. Most of its customers are regular and loyal. Each customer visits the shop at least once a month.

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Rural holidays, mail order selling and, more recently, selling over the Internet are all means of discovering local products. However, this does not in itself cultivate a particularly strong attachment to the area. People may discover the products of one region and go on to discover those of another, without any stable consumption behaviour necessarily being created. Furthermore, the marketing costs are far from negligible. For instance, in the case of the Spanish company "Vino Selección", they amount to between 30% and 40% of the price they pay the producer (cost of printing and dispatching the catalogue and product distribution, promotion and quality control).

EXAMPLE

Marketing local products by mail order: "Vino Selección" (Spain)

In 1973, the original idea of the founder and present manager of Vino Selección was to create a wine club to promote and sell, directly by mail order, quality wines that were little known at the time. In 1980, the product range was extended to include local products, especially cheeses and delicatessen meats. Today, more than 30,000 club members receive the magazine "Sobremesa" which includes the catalogue as a supplement. Vino Selección's turnover is around 11 million euros. Wine represents 75% of sales, cheese 15%, and other gastronomic products 10%.

EXAMPLE

Discovering gastronomic products: Vino Selección's "rincones gastronómicos"

Five times a year, for a period of one month, Vino Selección offers its customers a package of 10 of the best products from a selected Spanish or European rural area. The range is attractive and the presentation pack costs between 48 and 61 euros. Apart from the expected promotional impact of presenting its products, putting together a coherent range for this market allows a rural area to test the soundness of its offering, from the standpoint of both production and quality. The products proposed by Vino Selección cost the final consumer the same or slightly less than equivalent products in specialised shops. However, Vino Selección members have the advantage that the product is delivered direct to their homes.

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3.2 Defining a commercial strategy

The commercial strategy should be tailored to suit the target clientele: local and regional customers or remote customers.

3.2.1 Selecting the target group

Local and regional customers include local or regional communities, as well as tourists. This is the main target group for marketing via short distribution channels. Reaching this group generally requires little financial investment. Commercial activities are based on establishing a point of sale at the farm or the craft worker's premises, developing markets and local fairs and setting up promotional sales activities in busy areas (supermarkets, food halls), etc. Inexpensive local advertising (leaflets, local radio and newspapers) is sufficient.

Remote customers, both at home and abroad, include emigrants, tourists who have returned home and urban populations. The potential of such markets is great, and so are the costs and risks. This type of clientele should only be approached after having amassed a great deal of commercial experience.

This approach can only be recommended to collective craft workers, businesses or groupings that already have significant financial resources and investment capability. It is a high-risk form of marketing because the product sold, when leaving its region, loses part of its direct association with the area and comes up against direct competition with the traditional or industrial products of other regions. Depending on the sales formula, reaching a remote clientele calls for all or some of the following resources:

- > support for placing products on the market (packaging, communication medium, sales promoters, etc.);
- > effective logistics (stocks and means of delivery);
- > a structured and costly advertising strategy;
- > a sales force (sales representatives, etc.).

DISTANCE COMPOUNDS THE RISK

Choice of short distribution channels	Cultural proximity	Cultural remoteness
Geographical proximity	Local communities Low risk Customer easy to reach Customer follow-up: easy	Tourists Average risk Customer difficult to reach (tastes and buying habits) Customer follow-up: difficult
Geographical remoteness (more than 50 km)	Emigrants Average risk Customer difficult to reach Customer follow-up: difficult	Urban populations High risk Customer very difficult to reach Customer follow-up: difficult

3.2.2 Developing customer loyalty

A good commercial strategy aims to secure customer loyalty on the basis of the type of product and clientele. A loyal customer requires less advertising and marketing effort and hence less investment than a new buyer. A satisfied customer is one who recommends the product to his friends: word of mouth is a cheap and very effective form of advertising. This is why it is extremely important to find out what customers think and to set up and manage a customer information file with the aim of securing customer loyalty.

There are many methods for doing this, e.g.:

- > organising a game, tombola, competition, treasure hunt, etc. for which participants/potential customers are obliged to complete and return a coupon mentioning their name and address;
- > exploiting the file of customers who have paid by cheque;
- > offering a loyalty card mentioning the address, preferably with the card being held at the shop;
- > writing to customers on special occasions (Christmas, New Year, etc.) to offer them products while at the same time keeping them abreast of life on the farm, at the company and/or in the region;
- > distinguishing “active” or loyal customers from the rest by offering them a gift or discount.

ADAPTING THE FORM OF MARKETING TO THE TARGET CLIENTELE

Potential customers	Form of marketing	Type of product
Tourists	<ul style="list-style-type: none">> direct farm sales> tourist fair> distance selling> shop in tourist areas	<ul style="list-style-type: none">> festive or typical products> ordinary food products sold in summer in local tourist areas
Emigrants	<ul style="list-style-type: none">> sale throughout the area during the period when emigrants return home (roadside, farm, etc.)> distance selling	<ul style="list-style-type: none">> traditional typical products> products which keep well in the case of distance selling
Local rural communities	<ul style="list-style-type: none">> direct farm sales> local markets	<ul style="list-style-type: none">> ordinary consumer products
Urban populations	<ul style="list-style-type: none">> urban shop> gastronomic fair	<ul style="list-style-type: none">> range of products> festive products

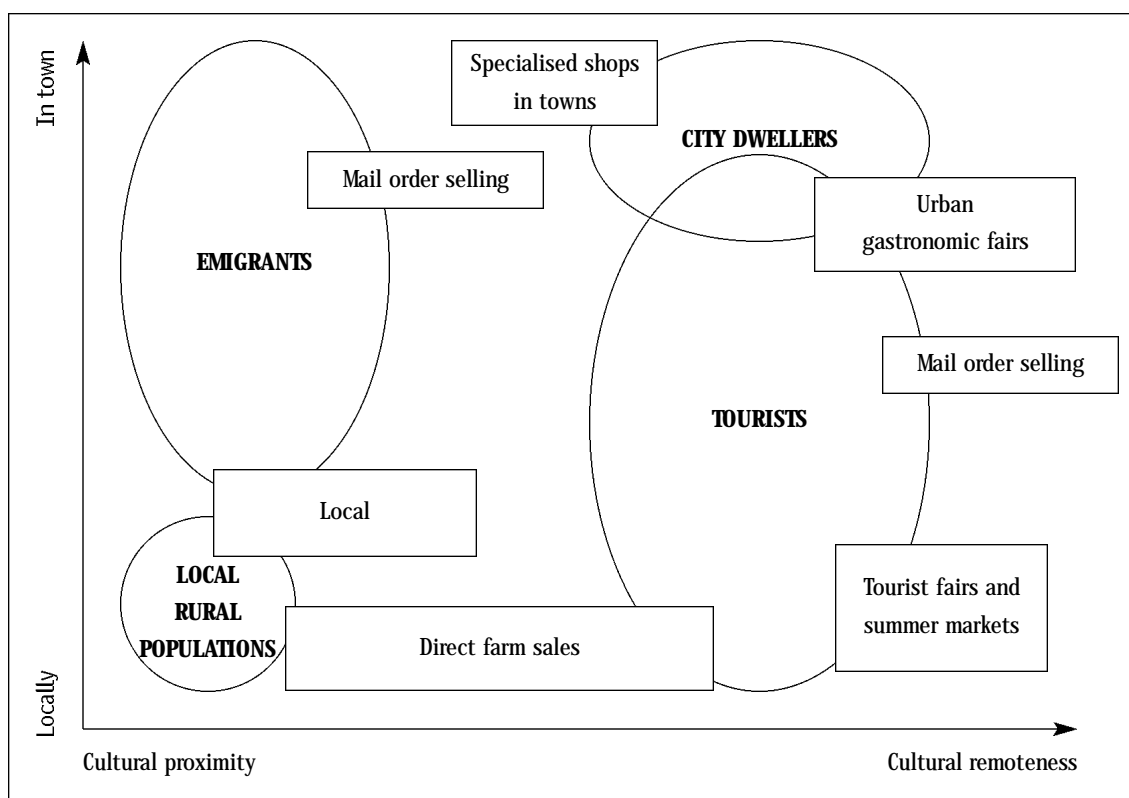
Chapter 4

The different forms of marketing

The different forms of marketing

The basic premise when selling via short distribution channels is that the customer will make very little effort to go and get the product, hence the need to bring the product as close as possible to his home.

FORM OF MARKETING BY TYPE OF CLIENTELE



4.1 Selling direct from the farm, the craftworker's premises or the company's point of sale

Products are sold directly from the production site, to which consumers travel to buy them. This is the easiest form of marketing to implement. The point of sale generally requires little investment (500 to 2,500 euros).

However, there is one constraint: the point of sale must have customers in its catchment area! In other words, it is usually futile to set up a point of sale in a very iso-

lated farm, unless it is to sell a rare and highly specific product. This form of marketing should be developed wherever possible because it enables these farmers to familiarise themselves with demand and gain experience in dealing with customers.

The investment covers setting up sanitation and reception facilities, a small sales area on the production site and a car park. The quantities sold are often limited because consumers will not travel far to buy a single product. Only well-situated production facilities, for example at the side of a busy road or in a tourist area, can expect large numbers of customers.

In order to increase sales, it is possible to establish jointly with other farmers or craft workers, on an exchange or sale-or-return basis, a range of products for which consumers are willing to travel further afield.

Installation requirements

- > The production site (farm, craft workshop, business) must be geographically accessible.
- > There must be customers in the catchment area, preferably capable of becoming loyal customers.
- > The point of sale should offer a wide range of products rather than only a small range.
- > Commercial innovation may be kept to a minimum because, in this case, what customers are looking for first and foremost is authenticity.
- > However, the point of sale must be dynamic (improved decoration, service, etc.), and evolve in line with the number of customers and its turnover.

Implementation

- > Cleanliness in the farm courtyard, car park and sales area is the number one priority.
- > There should be a sign indicating the production facility and mentioning that direct selling takes place, with opening days and times, as well as sufficient signposting from the main road.
- > The sales area requires very little display space, at least at the start: a table and shelves to hold the products are sufficient in the initial stages.
- > The interior fittings and simple decoration should make use of the resources of the farm or craft worker: photographs of the production process, the region, the raw materials, the production tools, etc.

Customer requirements

- > Authenticity of the product, assurances as to its composition and rearing or production method (food product).
- > Regular restocking of products (especially in the case of fresh products).
- > Direct contact with the producer.

EXAMPLE

Development and professionalisation of a traditional direct farm selling approach: “Fermière de Méan” (Wallonia, Belgium)

Marc, a young farmer, is endeavouring to find his niche on the family farm after having completed his agricultural studies. On the farm, his mother maintains the tradition of producing value-added dairy products: butter, buttermilk and a Belgian speciality: “fromage frais” (maquée). Marc is continuing the tradition, expanding the processing side and selling his produce at market. In order to increase sales and extend the product range, he sells the produce of other farmers alongside his own. He is also extending his own range of dairy products by learning about cheese making. The “Cooperative fermière de Méan” was set up around this young farmer. Today, the cooperative participates in nine itinerant markets, has set up two sales counters, and is seeking to consolidate its customer relations by improving product quality and the customer service training of sales personnel. It publishes a quarterly newsletter for its customers.

By opening a shop beside a busy road it has been possible to increase the quantities it sells to local customers and, since the dioxin crisis in Belgium (summer 1999), the cooperative has doubled its market-based sales.

For a more detailed description of this initiative, see the directory of “Innovative action programmes and rural development” (LEADER European Observatory).

4.2 Markets and fairs

There are three different types of market, each with its own specific clientele and its own particular customer behaviour:

4.2.1 “Support” markets

“Support” markets are itinerant markets selling ordinary consumer goods, and are held at least once a week. Their clientele is loyal and comes from the local area. In most cases, customers buy their products always from the same producers. The constraint for producers is that they have to attend such markets regularly in order to benefit from the customer loyalty aspect.

Installation requirements

- > There must be enough product volume available to justify the journey to market.
- > Only markets where products are likely to be appreciated by the customers patronising them should be chosen.
- > Producers must attend the market regularly.

Implementation

- > Producers must have the right equipment (e.g. a refrigerated van that complies with the national legislation in force regarding the sale of fresh products).
- > Spare time is required for this type of selling. Support markets are very time-consuming because they entail: preparation of the merchandise for transport and sale, transport, setting up the merchandise for sale, sale, return and tidying away. Attending a market takes up more or less one half-day to one whole day of work.
- > Producers must be rigorous in their choice of support markets. They should not choose too many, but choose them well. In many cases, the proportion of selling time versus production time becomes unbalanced. If it increases too much, business swings too far over towards the purchase/resale of products, which leads to a loss of authenticity for the producer/salesperson. A market must generate rapid turnover so that the products are replaced frequently.
- > Producers must match supply with demand through experience. The aim should be to arrive at market with the van full and to leave with it empty.

Customer requirements

- > Regular attendance of the producer.
- > A satisfactory price/quality ratio. On an ordinary consumer goods market, the customer memorises the

price and compares it with products that he considers competitive.

- > Interpersonal relations: the customer wants to be able to discuss the product with the producer, who will know him by name, give him free goods from time to time, etc.

4.2.2 Seasonal events [1]

Fairs, festivals and seasonal events for selling and promoting products, the region, craft workers or agriculture. This type of fair also benefits from a sort of customer loyalty. Customers return season after season, or year after year, if the traders have been able to maintain the prestige and authenticity of the event, the quality of the products presented, etc.

There are two different categories of fair for local products: fairs organised in the region itself and urban gastronomic fairs. Regional fairs offer a better opportunity to develop customer loyalty. By participating in a local tourist fair, producers are also able to sell and publicise their products in an unusual, pleasant and enjoyable setting.

Installation requirements

- > The products must be suitable (they must keep well and have a high unit cost to warrant the journey to sell them, and not fresh products bought on a regular basis).
- > Regional fairs are the best selling medium, at least in the initial stages. They allow at least some of the customers attending the fair to be turned into loyal customers.
- > Producers should choose fairs that have very rigorous criteria for selecting exhibitors. This ensures the fair's authenticity over the long term. In many cases, a fair frequented by too many street vendors gradually loses patronage, since the latter tend to poach customers.

Implementation

- > The stand must be elegant (professional decoration, etc.) in order to encourage custom.
- > Customers should be attracted with a tasting session, game, etc.
- > Customer addresses should be collected and followed up.
- > Regional fairs should be the option chosen at the outset.

[1] See on this subject the LEADER I dossier on “Valorisation of local agricultural resources”, appendix “Participation in trade fairs and shows”, AEIDL, 1994.

Customer requirements

- > Authenticity.
- > Feel-good factor, convenience, surroundings conducive to pleasure shopping.
- > Assurances as to the origin and distinctiveness of the product.
- > Information about the product.

EXAMPLE

Organisation of mediaeval fairs (Navarra, Spain)

The craftworkers' association of Navarra (23 producers from throughout the region) successfully organises mediaeval fairs, complete with period costumes, decor, entertainment and activities, etc. The fairs form part of a product marketing strategy based entirely on direct selling in Navarra and the neighbouring Basque Country.

For a more detailed description of this initiative, see the directory of “Innovative action programmes and rural development” (LEADER European Observatory).

Sometimes it is beneficial to seize the opportunity presented by major events in the life of the region.

EXAMPLE

Creating a showcase for local products: the Hunting Festival in Mirandela (Norte, Portugal)

The Terras Quente LEADER area is a hunting region where the situation for local products is difficult. Although traditional products still exist in mountain areas (cheese, delicatessen meats, weaving, etc.), production is in the hands of elderly people with no ambition to expand or to seek commercial outlets other than direct or traditional sales. The price of products is low in relation to the amount of work required to make them. LEADER has launched an innovative experiment based on organising a “hunting fair” in the small town of Mirandela at the start of the hunting season. It allows producers to sell their products to hunters from all over Portugal at very good prices. The hope is that young people and the most dynamic producers will seize this market opportunity and take back the initiative.

For a more detailed description of this initiative, see the directory of “Innovative action programmes and rural development” (LEADER European Observatory).

4.2.3 Promotion markets

Promotion markets are markets aimed at promoting a certain type of product, a region, etc. Rather than making sales on the spot, the aim of this type of fair is to sell after the event. The people frequenting this type of fair are not ordinary consumers alone, but also professionals in the trade (distributors, restaurateurs, etc.). Promotion markets are therefore chosen not on the basis of the volume of sales to be made during the event, but on the basis of their impact on sales volume, i.e. the sales that can be made after the event. Such markets require thorough preparation (collecting addresses, meetings, invitations to trade professionals), as well as follow-up after the fair to chase up sales opportunities. Producers should give preference to specialised fairs or shows where not only are the products on sale of consistently good quality from season to season or year to year, but also and most importantly, the criteria for selecting exhibitors are very rigorous. This type of event does not usually fall into the category of short distribution channels.

4.3 Specialised points of sale

A group of farmers, craft workers or businesses, or even an individual trader, decides to set up a point of sale for their own products and/or those of the area. A prerequisite for the shop's profitability is a high population density in the catchment area. The required investment is considerable – in the order of 10,000 to 50,000 euros or more. The range of products must also be broad enough to provide a full “household shopping basket”, i.e. everything the consumer needs to prepare a meal.

Installation requirements

- > The point of sale can be set up either in the country (beside a road that is busy every day or at popular tourist sites, provided that the products are suitable for tourists), or else in towns (in a shopping street, a food-shopping area, a sufficiently busy shopping centre, etc.).
- > Depending on the target customers, the range of products on offer must either be ordinary consumer products (in the case of food, this must include everything needed to make a meal) or special products (festive fare, gifts or souvenirs).
- > Such shops require a lot of technical and commercial innovation and must be highly dynamic (promotional activities, tasting sessions, etc.).

Implementation

- > A car park, sign, advertising panels and road signs must be provided.
- > The shop should have a surface area of at least 50 m² in order to comply with the industry standard of 2/3 circulation space and 1/3 display space.
- > The display space should include a selling area (shelving, podium, etc.), a sales and advisory area, a cash register, as well as a rest and information area.
- > The furnishings should respect the rules of merchandising: shelves should look attractive, customer service items should be provided (shopping baskets, chairs, tables, mirrors), the lighting should show off the products to best advantage, everything should be clean and the shop decor should be changed every season.

Customer requirements

- > Feel-good factor (convenience, etc.) because buying from a shop like this is for pleasure rather than for necessity.
- > A satisfactory quality/price ratio.
- > Customer services (payment facilities and advice).
- > Assurances as to the quality, origin and authenticity of the products.

Selling style

- > At this type of point of sale, the sales personnel should be highly competent and efficient. Furthermore, any new shop selling rural products (farmers or craft workers) is doomed to failure if there is no farmer or a craft worker at hand to guarantee the authenticity of the product and to provide after-sales service. The sales personnel should be well trained, familiar with the products and capable of explaining them to customers.
- > Commercial activities (products on promotion, promotional activities and tasting sessions) boost sales.
- > Selling from specialised shops calls for high profit margins (30% to 40%) in order to ensure the shop's viability. One pitfall to be avoided is selling products cheaply in order to keep the selling price competitive. This leads farmers and craft workers to boost their productivity, with the result that the quality and authenticity of the products soon falls off and many customers go elsewhere.

Farmers' collective point of sale

The principle of this form of marketing is for farmers to group together to create and jointly manage a shop selling local products. Setting up an itinerant van, a shop in a market town or a suburban or urban area, or a proper little supermarket alongside a busy road, are all possible options. This is an approach frequently adopted by farmers who have developed other forms of direct selling in the past, such as sales direct from the farm or at itinerant markets. Another option is to set up a cooperative in which the members have experience of jointly managing projects. How relations are organised within the group and the rules established to manage the cooperative project are of paramount importance. The support of external technical experts, recognised by the group, is a valuable aid. It is estimated^[1] that each farmer in the cooperative should sell at least 10% of his production through the cooperative for him to derive benefit from it, in view of the personal investment that such a venture requires. The consumer potential represented by this type of shop warrants the investment (*the average annual turnover of the shops participating in the AVEC cooperative, in the Rhône-Alpes region [France], is 300,000 euros*). After a few years of development, some farms end up selling their entire production through the collective shop. A variant of the collective shop in towns is a collective van that travels around to sell to consumers, particularly in rural areas.

4.4 Distance selling

The easiest products to sell using distance selling methods are those that keep well without any need for continuous refrigeration. Examples include marketing cheese by mail order – especially by *Vino Selección* in Spain – but this form of selling requires highly professional logistics, and success stories are few and far between. The products chiefly sold by this method are wines (which represent 70% of the turnover of *Vino Selección*) and canned food for which the high price per kilo warrants the transport cost.

[1] In the experience of AVEC, a French association of farmers selling direct from the farm.

A distinction needs to be made between mail order selling and distance selling to loyal customers:

4.4.1 Mail order selling

Mail order selling consists of sending to potential customers – who know neither the company nor the product – a catalogue from which they are able to purchase goods. It is a form of marketing that calls for very heavy investment (costs of setting up and publishing a catalogue, a customer file, mailshots, professional logistics and maintaining a complete range of products). Moreover, as it entails a high risk, considerable start-up capital is vital. For small companies that nevertheless wish to sell by this means, the most efficient solution is to join forces with existing mail order firms, rather than trying to start up their own system with an official catalogue. However, it is always possible to maintain a customer file on the basis of a simple leaflet: this resembles **distance selling** to loyal customers.

4.4.2 Distance selling

Distance selling consists of catalogue selling to customers who already know the company and/or product. It is a natural extension of direct selling. Once they have returned home, consumers like to buy products that they have tasted during their holidays, at a festive occasion or as a gift. By using the customer file,^[1] companies can target potential buyers who already know the company and the product. The catalogue is easy to create using simple equipment (a photocopier, for example) and the farm itself can send out mailshot advertising, provided that it offers a wide enough range of products.

The success of a system of distance or mail order selling relies on two closely related requirements: continually updating the customer file and developing customer loyalty. However, the profit margins on products – up to 40% – can quickly be swallowed up by promotion costs. Rigorous management of the customer file is vital to maintaining a high percentage of return orders.

[1] Loyalty cards, tombolas (customers participating in the tombola have to indicate their address on a coupon) and collecting addresses from customer cheques are some ways to set up a customer file.

Installation requirements

- > Products which keep well.
- > Festive products or ones that are stored (e.g. wine).
- > A file of loyal customers.

Implementation

- > Management of the customer file.
- > Stock and cash flow management.

Customer requirements

- > Maintaining the human relations aspect of selling.
- > Quality/price ratio because of competition.
- > Maintaining links with the area.

4.5 Sale combined with a cultural or tourist service

Urban consumers often want to know more about the methods of producing goods. They are also very keen to pass on knowledge and know-how to their children. If they are to “consume the rural environment”, they need to actually participate in an activity, e.g. helping to make a product, going on a cycling route, watching a show, etc.

Selling to tourists is a variant on direct farm selling, except in this case what is sold is more of a service than a food product. It is a leisure or a cultural product, knowledge about or a link with the history of an area, a pleasant interlude. As mentioned earlier, it is rare to sell large quantities of food products via this type of distribution channel.

Installation requirements

- > It must be situated in a local tourist area or a site of cultural or tourist interest.
- > The right knowledge and proper aids are required to provide the service.

Implementation

- > The service must be designed to recover in earnings the work that it entails.
- > A complete service must be offered at a fixed price, where customers pay only for booking their day out.
- > A “key” to discovering the site must be provided (booklet, exhibition, etc.).

Customer requirements

- > To be able to consume the product at a fixed price, with the whole service included.
- > To have every detail organised for them (e.g. in the case of a cycling excursion, the service provider should supply the bicycles on the spot).
- > To receive information and explanations (guided tour, documentation, leaflet, etc.).
- > A welcoming atmosphere, enjoyment, rest and relaxation (a place to have a drink, etc.).

EXAMPLE

Discovering organic farming by bicycle: the “Eko-Boerderij Route” (Drenthe, Netherlands)

The product being sold is a leisure product (a bicycle tour), combined with a cultural product (an explanation of the special features of organic farming). Along the 42-

km cycle route, customers discover seven organic farms where they receive explanations about production methods and can buy products.

In quantitative terms, sales of products remain limited. Customers are not going to ride 42 km by bicycle every time they want to buy organic vegetables. The farmers' intention is not direct selling but promotion. Associating their name with leisure cycling increases sales through commercial distribution channels (supermarkets, specialised shops where the products are sold). The leisure product allows for the free use of advertising channels (e.g. cycling magazines) and attracts the support of national tourist offices.

For a more detailed description of this initiative, see the directory of “Innovative action programmes and rural development” (LEADER European Observatory).

POTENTIAL AND RISK LEVEL OF THE DIFFERENT FORMS OF MARKETING AND TYPES OF PRODUCT

Form of marketing	Type of product	Potential	Risk
Direct farm sales	Farm produce (vegetables, poultry, cheese, wines, etc.), including fresh products	+ to ++ (depending on patronage, hence on the location of the farm)	0 to +
Local tourist fair	All types of local product but especially festive goods	+ to ++ depending on patronage	+
Distance selling	Products which keep well	+	+ to ++ depending on mail shots and means of promotion
Mail order selling	Store cupboard items, especially wines and festive goods	+++	+++
Collective shop in town	All types of product, including fresh products (complete range)	+++	+++
Urban fair for local products	Festive products	++ to +++	+ to ++
Local markets	All types of product, depending on patronage of the market	+ to ++	+ to ++

N.B.: + low; ++ average; +++ high.

Chapter 5

Placing products on the market

Placing products on the market

Placing products on the market requires the inclusion of risk-limiting phases such as market surveys and tests, ascertaining the value of supply from the area and professionally analysing the match between supply and demand.

5.1 (Formal) market surveys and test marketing

A *formal preliminary study* prior to launching a project to sell via short distribution channels is not always carried out because selling in this way is easy. Very often, this stage is skipped and the test-marketing phase is embarked upon without first carrying out a formal study.

Test marketing is a good way to verify the feasibility of an idea in cases where its implementation does not require major investment, at least in the initial stages. If the test proves conclusive, the project is pursued. For example, in cases where producers plan to enter a new market, the most effective approach is still to test several markets. Test marketing reveals whether the group's products are of interest to customers in the market, and even identifies specific customers, if producers are able to organise themselves to carry out the work, etc. Should the test prove negative, the merchandise can be sold in another way.

However, whenever implementing an idea calls for major investment – such as buying or renovating a shop –, a preliminary project study and a formal approach are essential in order to limit the financial risk.

It is advisable at this stage to solicit the help of a consultant who will not only provide methodological skills, but will also take an outsider's, and hence more objective, view of the project. Project promoters, who are of course highly motivated, tend to underestimate obstacles and to overestimate their ability to overcome them. Furthermore, with their experience of other ventures, consultants are able to effectively guide producers through their projects^[1].

5.2 Territorial dimension of supply

Many LEADER areas have a wealth of food products and craft workers associated with local traditions. By linking the product to the area, it is possible to devise new service-related products. In this case, each area and each group has to capitalise on its own assets. Particular consideration must be given to ensuring that service providers recover their work and investment by charging customers for services (sale of products, meals included in tourist activities, accommodation, entrance tickets for a visit, etc.).

EXAMPLE

"Sunday in the Country" (Rhône-Alpes, France)

Producers offer their customers, city-dwellers from Lyon, an afternoon of relaxation in the hills of the Lyon countryside.

The distribution channel is based on combining the local supply of apples, at a distance not too far from consumer centres, which city folk nevertheless consider to be "the countryside", with the skills and motivation of a group of farmers interested in promotional activities.

The principle is for customers to help make apple pies on the producers' farm at weekends. Afterwards they go home with their pies, as well as with other products from the farm that are on sale in the shopping area adjacent to the kitchen/rest area.

For a more detailed description of this initiative, see the directory of "Innovative action programmes and rural development" (LEADER European Observatory).

[1] The LEADER guide "Evaluating a territory's tourist potential" Brussels, 1997, contains a checklist for selecting and hiring a consultant.

5.3 Analysing supply and demand

Soliciting a professional outsider's view

It is desirable to carry out a formal supply analysis and to decide what separates the local product from its rivals. A person from outside the producer group or the area is sometimes in a better position to pinpoint such distinctiveness. It is no coincidence that numerous initiatives for marketing local products in urban markets have stemmed from people who, though originally from the area, have moved away to the city. Because of their origins, they are familiar with local products and their characteristics, and because of their time spent in the city or abroad, they are also familiar with the requirements of potential customers.

Market survey

In parallel with any market survey, it can be useful, and indeed even vital, to test the product in fairs and local markets, and through direct farm selling. This does not require any investment and yields highly conclusive results in terms of motivation and feasibility. At fairs the product can be test-marketed in a real-life situation, making it possible to discover how customers perceive it and ascertain the abilities of the producer's salesperson, etc.

It is recommended to involve producers in the market survey, by making them carry out some of the surveys themselves and getting them to participate in the interpretation exercise. This reduces costs and puts producers in closer touch with customers, allowing them to find out customer expectations and to meet customers when they interview them for a survey.

A market survey includes the three variables for placing products on the market: catchment area, customers and competition.

Catchment area

This is the geographical area within which the company manager, farmer or group proposing the project can expect to attract customers. It is a vital element. Striving to promote a remote point of sale will not produce positive results. The answer is therefore to bring the service to the customer.

This involves ascertaining:

- > the density of the resident population and the influx of visitors (tourists, second-home owners, etc.);
- > whether the population is urban or rural;

- > the means of transport for reaching the shop (by car or bus, taking into account any obstacles such as a river, motorway, etc.);
- > logistical infrastructure (road, etc.).

The question that must be asked is: will the population in the catchment area be sufficient to provide a living for the farmer, craft worker or project?

In France the rule of thumb is that more than 25,000 inhabitants within a 25 km radius of a point of sale means that the study can go ahead, whereas if there are only between 5,000 and 10,000 inhabitants, profitability will be more of a problem.

Customers

This requires five types of information:

- > Socio-professional category, buying and consumer habits. How much of their budget do consumers spend on the type of products we are interested in? Where and how do they buy products (fresh or packaged, etc.)? What is their current volume of spending (for the average household shopping-basket)? This will provide some of the elements for determining what brand image the point of sale should be given and what the pricing policy should be, as well as whether to offer fresh or packaged products.
- > Expectations of the product: what do consumers want? What do they buy at present? What do they find lacking? This allows producers to choose between two types of product: ordinary consumer products, which must be affordable to all socio-professional categories, or festive fare and special products, which can be more expensive.
- > Where do consumers shop?
On this basis, it is possible to work out a commercial strategy and distribution channels (markets, shops, etc.)
- > What type of service do consumers want?
Based on the answers to these questions, extra services can be offered to customers when they buy the product (payment in one or two instalments, delivery). The idea is to supply the product whilst meeting customer demand for services and not the reverse (it is essential to ensure that the commercial strategy is not built around a service rather than the product itself).
- > How can you communicate with consumers?
Based on this knowledge, a communication strategy can be worked out (word of mouth, mail shots, leaflets, promotional sales in large shopping centres, local radio).

Competition

- > Who are the competitors?
- > What do they do
- > what products do they make?
- > Where do they sell?
- > How do they sell
- > Do they have an aggressive sales technique or not, including pricing)?

From this information, it is possible to work out if there is strong or weak competition and hence whether the sales method should be aggressive or not. The conclusion will determine positioning. If competition is strong, the marketing strategy can be expected to reach 0.1 to 0.5% of customers in the catchment area. If competition is weak, it can be expected to reach between 0.3% and 2%.

5.4 Project approach

Initial human and economic objectives of the project

A project is the result of the determination and effort of an individual or group. Therefore the criterion for success is not only motivation but also the independence acquired by farmers or craft workers in bringing their project to a successful conclusion after the consultants have done their job.

The project approach should include product tests and test marketing, as described earlier. Such testing may lead to a change in the business approach.

A formal market survey takes place downstream of the tests. It allows the feasibility and profitability of a major investment to be defined in advance in order to avoid making unnecessary mistakes later.

The market survey is not “scientific”. It is a technique to examine all of the marketing parameters and use check lists to record results, study them and adapt initiatives in line with their conclusions.

Improving initiatives calls for an objective evaluation of the results and it is vital to record data. Useful indicators include: patronage (the number of customers should be noted every day); earnings for each product (cash register data should be studied); qualitative observation of customers (persons working at the sales counter should note customer observations for the half-day or the whole day, as well as their own observations about the products and the sales results); and a customer file should be kept, recording information about items such as repeat business.

EXAMPLE

Market survey carried out with a view to setting up a shop selling farmhouse products in town

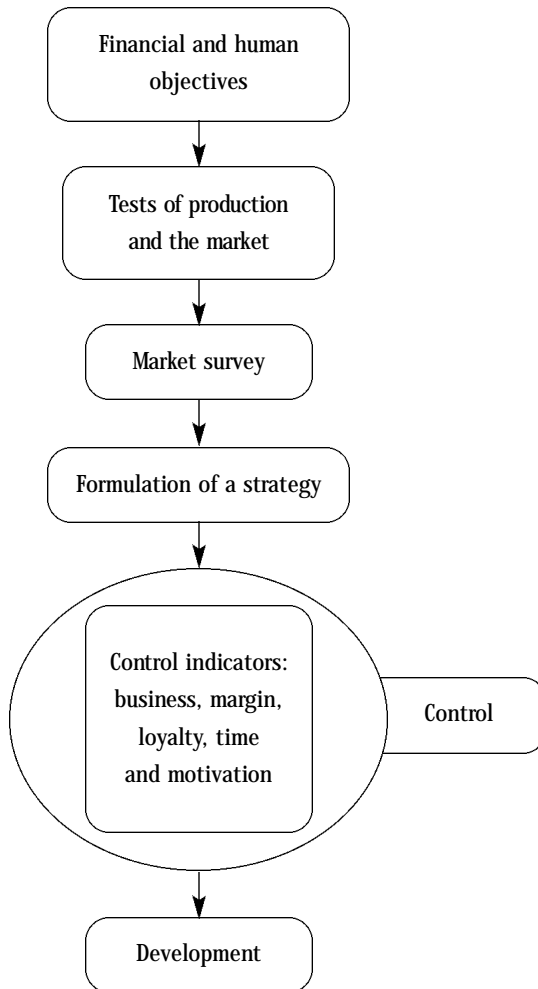
The aim of the survey was to determine the advisability, for a group of farmers, to invest in a project for a town shop to sell a wide range of ordinary consumer goods (vegetables, fruit, eggs, delicatessen meats, pork, rabbit, duck, chicken, cheese and fresh dairy products, plus complementary items such as jam, honey, wine and fruit juice). The planned investment was considerable, since it involved hiring shop premises, fitting them out and recruiting a sales assistant.

The market survey revealed the following information:

- > *15,000 inhabitants in the catchment area, with not much to attract shoppers because there were few other shops in the street. It could be expected to capture between 3% and 5% of the theoretical market. The population was mainly young, with an average to high income (data obtained from the Chamber of Commerce). This pointed to a potential turnover of between 150,000 and 450,000 euros per year.*
- > *The use of a qualitative and quantitative approach that included in-depth interviews and a questionnaire sent to a representative sample of potential buyers made it possible to pinpoint customer expectations and find out what they thought of the product range the farmers' group was proposing to sell.*
- > *The point of sale was indeed set up, at a cost of 106,000 euros. Turnover gradually increased, reaching 230,000 euros a year after two years. However, a local disruption (public works at the end of the road where the shop was situated, preventing cars from parking nearby) caused earnings to fall back to below 153,000 euros.*

This example shows that although a market survey avoids gross errors, it is not a particularly precise technique. A market survey does not take into account the motivation and the ability of the project promoters to adapt, a fundamental factor that can make an uncertain project viable or, on the contrary, lead to the failure of a project that starts out in an ideal context.

PROJECT APPROACH



Continually monitoring the market in order to reorient the project

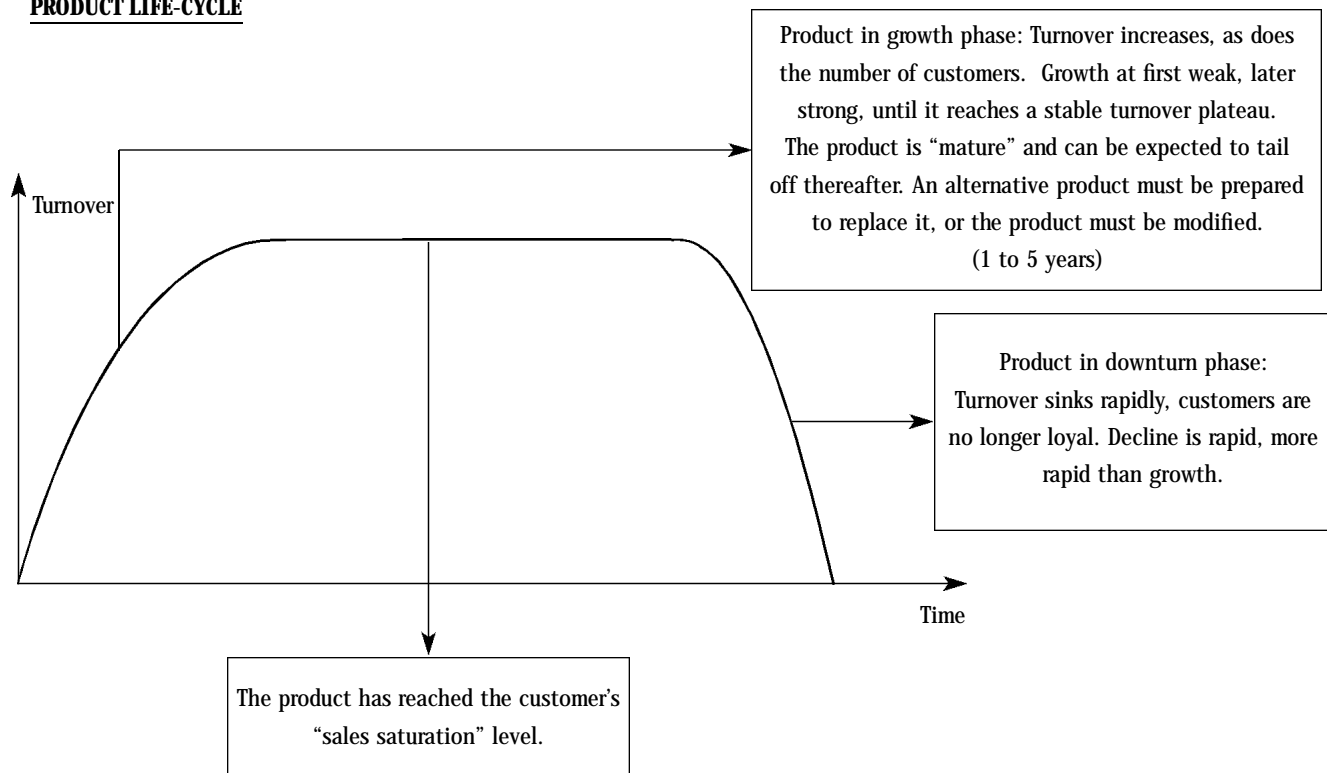
Without innovation, customers become weary of the finest product, even from their usual point of sale. Each product has its own life cycle, which means that producers must update their products in some way.

Knowledge of the market depends on continual monitoring. This means periodically re-analysing demand and potential target groups in order to be able to put together a suitable product offering at any time. It is particularly useful to formally monitor the market every two to three years or whenever a product, shop, or service reaches a plateau, in terms of either turnover or patronage, or when a problem arises (e.g. a decline in patronage).

Unlike in the case of a preliminary study prior to investing in a project, a supplementary source of information is available for monitoring the market in the form of business indicators: earnings for each product; patronage; margins for each product; percentage of unsold articles; suggestion box; customer comments; sales trends; competition; customer loyalty; and team motivation.

Certain producers practise informal permanent monitoring. This means that they remain continually alert to their customers, observe what their market competitors are doing and make use of their holidays, whether at home or abroad, to visit places that are likely to provide them with new ideas.

PRODUCT LIFE-CYCLE



Chapter 6

Support for producers' groups

Support for producers' groups

Although the initial stages of selling via short distribution channels are open to individuals, the subsequent stages, which also lead to the most stable and lucrative ways of placing products on the market, require a complete product range, heavy financial investment and sustained motivation and hence, in many cases, a collective form of action.

Support for collective action may involve a number of different scenarios:

- > A group of businesses or farmers is planning a marketing project via short distribution channels. How can the group best be helped?
- > The entities proposing marketing projects are economically too weak (product range, investment capability, volumes) for each project to be viable individually. How can the creation of a collective initiative be fostered?
- > The LEADER group is directly involved in marketing products via short distribution channels. Is this desirable?

Project support calls for several different phases and approaches.

6.1 Arranging for potential project proposers to meet

The desire and motivation of individuals to form a group and make it work cannot be externally imposed or created. However, certain factors can help it along. Firstly players that are likely to become project proposers should first meet individually so that they can get to know one another on a professional basis, or even, if there is sufficient trust between them, so that they can explain their objectives and strategies. In many cases, people working in the same business do not have any opportunity to discuss business matters together even if living in the same area brings them into close contact. Indeed, in some cases they may perceive one another as competitors, even when collaboration between them would be possible, desirable, or even essential for certain projects.

EXAMPLE

**Training to form a bakers' association:
"Ur-Paarl nach Klosterart", a traditional
monastery bread (Vinschgau/Val Venosta,
Trentino-Alto Adige, Italy)**

"Ur-Paarl nach Klosterart" is the traditional bread from the upper Adige valley. Its origins date back to the time when the bakery at the Benedictine monastery of Monte-Maria de Burgusio was built in the 17th century. Its production had virtually ground to a halt, as had the cultivation of the cereals formerly used in the bakery. The LEADER programme helped to bring "Ur-Paarl" back to life by funding part of the project design stage (involving training for the bakers), carrying out market surveys, promoting the initiative and establishing quality standards.

For a more detailed description of this initiative, see the directory of "Innovative action programmes and rural development" (LEADER European Observatory).

6.2 Setting up forums for discussion and expressions of interest is likely to open up new prospects and to create a new balance

By establishing a forum for discussion and expressions of interest, the coordinators of the support project are sometimes able to help create new balances that are more conducive to the contemporary development of an area, even in cases where entrenched interests had been able to block certain initiatives for years.

Again in the Vinschgau/Val Venosta region, the tourist sector wanted tourists to be able to easily move from place to place to discover the area (footpaths and cycle paths, etc.), whereas the farmers whose farm tracks were often solicited for organising walking and cycling routes, had always been reluctant. By encouraging an open discussion between the tourist sector and farmers and showing the good sense of organising a tourist route to promote the region's agricultural products, LEADER group coordinators were able to propose new types of exchange between the tourist sector and farmers.

6.3 Encouraging regional development initiatives around local products

Sometimes traditional products form the basis of a huge range of economic activities in a region. This is the case with cheese production in the Pyrenees, which provides a livelihood for a significant proportion of the population. The “Mission Agro-Alimentaire des Pyrénées” is an example of the integrated regional development of the entire production circuit for local products.

EXAMPLE

“Mission Agro-Alimentaire Pyrénées” (France)

In 1982, a specialised team of three people was created in the French Pyrenees to provide support for farmers and project proposers wishing to set up procedures for processing, developing and marketing their products. This support was provided in close association with the producers and encompassed every phase of the project, from improving product quality to implementing marketing strategies. Over 15 years, 29 projects have been successfully implemented, directly involving more than 1,000 mountain farms. Since the outset, the areas covered by the initiative have been numerous and varied: farmhouse and traditionally-produced cheeses, suckling lamb, salted meats, delicatessen meats, foie gras, luxury canned food, jams, liqueurs, honey, medicinal and aromatic herbs, fruit juices, etc.

The key elements of this initiative are:

- > Input of business skills to the mountain farming sector where such skills are often lacking.*
- > Creation of considerable added value that brings in extra income to a community of farmers and craft workers, enabling them to continue living in the mountains.*
- > Support provided on the basis of three sets of criteria: technical (associated with possibilities for qualitatively improving production), economic (associated with analysing potential markets) and human (associated with upgrading the skills of project proposers).*

For a more detailed description of this initiative, see the directory of “Innovative action programmes and rural development” (LEADER European Observatory).

6.4 Guiding and assisting an existing group

Over the past ten years it has become increasingly common for farmers to join forces to market their farm produce direct.

These groups operate in a wide variety of ways. The most common form of marketing is a permanent point of sale, in the form of a shop, although other formulas are emerging, such as collective markets on the farm, collective itinerant vans or even collective deliveries.

The conditions for setting up a marketing system and customer requirements are the same for collective sales structures as they are for individuals.

However, a collective project is more complex to manage, since individual motivations and objectives have to be encompassed and expressed within the collective objectives and strategy.

6.5 Defining objectives and priorities for contractually agreeing on collective organisation

The discussion/training phase prior to starting up the project, preferably guided and assisted by a coordinator, can and should take time. It should last at least one year but no more than two; any longer and the group starts to lose momentum. This allows members to get to know one another by expressing the personalities, plans and strategies of each individual or farm, whilst at the same time constructing the first stages of the project, i.e.:

- > identifying each farm's objectives and potential involvement;
- > contractually agreeing on a coherent operating strategy;
- > creating a collective identity that meets consumer expectations.

6.6 Helping all participants to clarify their motivations

During this phase, all project members evaluate:

- > their short- and medium-term commitments, in terms of product range and volume, working time, financial investment and modifications to their work organisation to comply with their collective responsibilities;
- > their objectives for the joint project in terms of anticipated earnings;
- > their commercial strategy with regard to other sales sites;
- > their motivation for direct contacts with consumers, selling products other than their own, team working and joint decision-making.

Pooling resources will make it possible to select the most appropriate operating method:

- > Is there a large enough variety of products to put together an attractive range that meets the requirements of the target clientele, or should new producers be brought in?
- > Is the group capable of tackling joint management and how should tasks be distributed?

The aim of this phase is to raise awareness of an important factor of success: if the purpose is to make farms economically viable, the commercial objectives will not be enough on their own to guarantee the success of the venture without strong human motivation.

6.7 Taking time to get acquainted and to create a collective identity

By alternating periods of action and reflection, the team will gradually cohere around the project. Seeking premises, working out the amount of investment and the means of finance, identifying the appropriate legal status of the group, visiting other collective shops, going to visit one another's farms to find out their individual know-how and learning basic sales techniques all provide good opportunities.

The group chooses a name for itself, as well as communication tools that reflect the image it wishes to attribute to its products and producers. It can then start to implement marketing initiatives (stands at fairs or markets, local awareness activities, promotion campaign), whilst at the same time continuing to develop the final project. These early attempts at working together are useful for testing collective action prior to making a heavier investment (e.g. setting up a permanent point of sale).

This gradual approach to collective action allows the group to anticipate difficulties in working together. Little by little, each group member learns to adjust to the way in which the others work, without for all that confronting the greatest obstacles straight away. By the time these obstacles emerge, the group is already well established and its members know each other and have learned to work together.

6.8 Drawing up the contract and the internal operating rules

This phase consists of formalising in writing the contract for engaging future members.

The contract should include:

- > the conditions of admission, departure and exclusion of members;
- > the status of the producers (Did all of the group's members invest an equal amount? Do they all participate in the full range of collective tasks? Are members subject to different admission conditions? What margins will be deducted from the sale of products to cover operating costs?);
- > the farms' area of origin (is it limited to a local region or geographical location?);
- > the distribution of products among producers (Is the rule only one producer per product? What are the supply criteria for ensuring complementarity between producers?);
- > the producers' responsibility for products (it is vital for producers to agree to provide regular priority inputs to the sales group, in compliance with the legislation in force and the quality criteria collectively defined in advance, as well as to manage stock shortages, unsold articles and returns of substandard goods);
- > developing the pricing policy: exchanging product information among producers and informing consumers.

The internal rules and regulations should stipulate:

- > rules regarding internal decision-making and communication;
- > reviews and discussions at regular intervals (an annual meeting allows the long-term objectives and priorities to be formalised, whereas monthly meetings provide an opportunity to review sales dynamics and customer requirements. At monthly meetings the objectives are identified and short-term issues resolved: stock shortages, promotion campaigns, awareness activities, etc.).

Internal communication tools ensure the day-to-day management and follow-up of sales between producers who report to each other on a daily basis.

6.9 Distributing tasks

This involves:

- > identifying responsible and competent persons who are recognised as such by the group; they have supplementary skills and assume clearly-defined duties, such as accounting, administration, stock management, decoration, etc.;
- > managing time selling for the collective organisation
 - Should this amount of time be the same irrespective of earnings, or should it be proportional to the turnover achieved, with the risk that producers presenting loss-leader items will be predominantly involved? Should a compulsory fixed amount of time per month be established, or should the principle be a task bank on a paid hourly basis? Each group has to seek the fairest system, under which all of the other duties, including accounting and management, administration, external relations, promotion and maintenance, should all be considered on the same basis as selling time;
- > managing salaried post(s) – these should be adapted to the needs of the sales group (accounting, sales support for producers on the busiest days) and to the needs of the farms. Perhaps a good solution is to create a post where the employee shares his or her work time between the sales group and the member farms. Whatever the tasks of salaried workers, producers must include them in the team. A salaried worker must be able to describe the selling points with the same competence as producers and feel comfortable with the informal relationship expected by the clientele of this particular form of marketing.

6.10 Updating objectives and priorities

Experience has demonstrated the need to periodically organise a review between producers to discuss whether their sales objectives have been achieved, whether their farm is ready to adapt to meet growing demand, whether to create a new product, or whether to abandon a sales site.

In parallel, did the measures implemented by the sales structure come up to the producers' expectations?

Should the internal regulations be reviewed? Is the intervention of a mediator or an outsider's view necessary?

It is useful to think about one basic question: where does the sales group stand within each farmer's hierarchy of priorities?

Experience has shown that, in cases where the collective sales group is the priority sales medium, or even the only one, the farmers' motivation remains more constant over the long term than when the group forms only part of their sales network.

Section 2

Collectively marketing local products via long distribution channels

Chapter 1

Issues at stake

Issues at stake

The existence of intermediaries between the producer and the final consumer is the chief characteristic of long distribution channels.

In general the term “long” distribution channels refers to the majority of marketing channels situated outside of local markets. This is not an academic definition, nor does it purport to establish a cut-and-dried distinction between “short” and “long” distribution channels. However, as mentioned earlier, long distribution channels do possess certain characteristics generally associated with the existence of several intermediaries between the producer and the consumer, which has obvious consequences:

- > in view of the lack of direct contact, it is more difficult for the producer to ascertain the extent to which his products meet consumer expectations;
- > the product also plays a more important role in identifying the producer, about whom it is the only source of information in certain cases;
- > because the producer’s “customers” are themselves intermediaries, the quality of their relationship will have a heavy impact on sales; the producer is also a business associate for the intermediary.

According to such a rationale, factors such as geographical distance may be less significant. For instance, whereas organised distribution and exportation can be considered as long distribution channels, by contrast, mail order selling, in cases where there is a direct relationship between the producer and the consumer, can be considered as a short distribution channel.

Elements like the “anonymity” of producers in the eyes of the final consumer, the relationship with customers who, for the most part, are market professionals (purchasing managers, importers, wholesalers, etc.) and the quantities involved in each consignment, all mean that long distribution channels differ fundamentally from the channels within which small local producers usually operate. As mentioned in the previous dossier^[1], between farm selling and major retail chains there is a “cultural rift between two universes that are not made for one another”.

Indeed, history is littered with the failures and negative experiences of small food companies attempting to develop new marketing channels. It is frequent in the most diverse geographical contexts to encounter a phenomenon of “**absorption**” by mass retailers (a process through which, by increasing its orders, a mass retailer virtually becomes the business’s sole customer. It is then forced to conclude increasingly less lucrative deals, to the point where its production becomes completely distorted). Another is institutional collective promotion initiatives in new markets (exports, exhibitions, advertising campaigns, etc.) that end up in failure.

In the light of experiences of this kind, many local producers perceive selling outside of local markets as **more of a threat than an opportunity**: “... mass retailers offer unreasonable purchasing terms... exportation is a channel to which few people can aspire... collective business development projects do not work”^[1]. In many rural areas today, this sort of attitude is common, and entry into long distribution channels is considered as a necessary evil only for cases where the local market is no longer able to absorb product supply.

Although a small business operating at local level has every reason to be suspicious of long distribution channels, the spread of preconceived ideas like those cited above could engender dangerous misconceptions that are liable to shrink the prospects of small businesses, alienating them from market trends and hence from ongoing changes in market access conditions and in the “rules of the game”.

Before drawing any strategic conclusions about “long” distribution channels, at least three elements must be taken into account:

- > **strong growth in the demand for local products;**
- > **new market conditions;**
- > **changes in the rural context.**

[1] Daniel Pujol, *op.cit*

LONG DISTRIBUTION CHANNELS

	Producers	
<i>Mass retailing</i>	Traditional distribution	Export
National purchase centres	Sales agencies	Domestic importers, sales agencies
Regional purchasing platforms	Wholesalers Distributors	Wholesalers Distributors
Points of sale (supermarkets, hypermarkets, etc.)	Points of sale (minimarkets, specialised shops, etc.)	Points of sale (shops, supermarkets, etc.)
Consumers	Consumers	Consumers
	Restaurateurs	Restaurateurs
Domestic market		Foreign market

1.1 Increasing demand

As mentioned in the introduction to this dossier, demand for typical food products with a cottage industry image is undoubtedly growing ever faster, although there are differences from one country to another. In this sector, the talk is no longer of “niche” markets, but of widespread consumer trends^[1].

According to the Eurobarometer survey carried out on behalf of the European Commission by France’s national agronomic research institute (INRA), among 16,000 Europeans, in November and December 1995, for 30% of consumers a product’s origin is a major criterion of choice when it comes to shopping. Furthermore, 76% of the people polled stated that they ate food products made “by traditional methods” and, in order to identify such products, 43% relied on consulting the label. What is more, 33% of the people interviewed checked the composition of the product, 29% checked the production site, 27% looked for a mention saying that the product was “traditional” and 25% trusted to the brand name.

[1] Daniel Pujol, *op. cit.*

1.2 New market conditions

To cope with increased demand, market operators have changed their attitude towards local products. In their continual search for elements with which to distinguish and enliven their points of sale, the major brand names now see local products as portraying a positive and gratifying image to the public.

Not only does this situation open up interesting market opportunities, it also defines a new order with totally new forms of competition. Although competition between producers is not fierce (especially in long distribution channels where the presence of small cottage industries is as yet limited), we are witnessing the emergence of new forms of competition, both from food manufacturers, who are gaining a better foothold in the market with product ranges that convey a typical and cottage-industry image, and from major retail chains. The “Filière Qualité Carrefour” operation is a typical illustration of this phenomenon. Its creator, the French hypermarket chain, Carrefour, has concluded agreements with more than 20,000 suppliers – farms, fishery firms and agribusiness processing companies (cooperatives, abattoirs, mills, etc.) – to supply food products based on natural and traditional recipes, which rigorously meet food hygiene and safety requirements. Furthermore, these products will be certified by independent organisations such as Qualité France and Ecocert. In the medium term, this network of agree-

ments is set to involve more than 50,000 regional producers, all managing small and medium-sized businesses, some of whom are specialised in organic farming. All of the operators who will be taking part in the initiative will come under the generic brand “Filière Qualité Carrefour”.

1.3 A changing rural context

Although, from a commercial standpoint, one cannot deny that concrete opportunities for traditional small business firms do exist, nor that there is a threat from competitors wishing to take advantage of available opportunities, the key issue is whether rural areas have what it takes to control the food circuit downstream.

Clearly, the gap between organised distribution channels and small local firms is gradually narrowing. This is not a phenomenon that can be explained solely by technological developments in communication systems and distribution-related services. Indeed, we are witnessing the emergence of a new form of mutual interest between consumers wishing to know more about local products and their identity, and producers, for whom the development of marketing holds out interesting economic prospects and a potentially new and motivating role as key players in the rural world.

Against this background, business development activities are important for the future of rural areas, because of:

- > their ability to involve young people;
- > their role in disseminating and reinforcing the local identity;
- > the opportunity which they offer for keeping a large portion of the added value of products in the local area.

In the case of long distribution channels, the commercial side includes a series of activities traditionally carried out by the “downstream” links in the food circuit: wholesalers, distributors, sales agencies, export companies, etc. The methods, contents and desired professional profile required for this model mean that it differs markedly from the production model. Consequently, for many rural areas, developing along these lines will call for a real “cultural revolution” if people are to acquire a market-oriented attitude and introduce specific professional profiles.

The strategy developed by the Midi-Pyrenees Chamber of Agriculture (France), aimed primarily at young people wishing to start up in farming, is an interesting example. Against a regional background characterised by a gradual decline in farming, with large-scale mixed arable and livestock farms relying on subsidies from the European Union, combined with a steady deterioration in prospects for income and employment in farming, the Chamber of Agriculture wished to focus on the rich and diversified heritage of typical local products. Its project includes several specific objectives:

- > to develop local products that are able to create added value;
- > to set up professional economic organisations for processing and/or marketing products;
- > to make even greater inroads into controlling distribution strategies.

1.4 Six examples, but a multitude of lessons to be learned

Six case studies^[1] involving individual and collective rural businesses have demonstrated the following characteristics:

- > great confidence in the possibility of exploiting the potential of local products, each with their own identity and distinctiveness;
- > a “relaxed” attitude to the market and especially to long distribution channels.

These experiences make it possible to draw some lessons, both for those preparing to set up similar activities and for people or LEADER groups who are responsible for harnessing resources and guiding them towards this type of initiative, which calls for competent, flexible and, almost invariably, unconventional support.

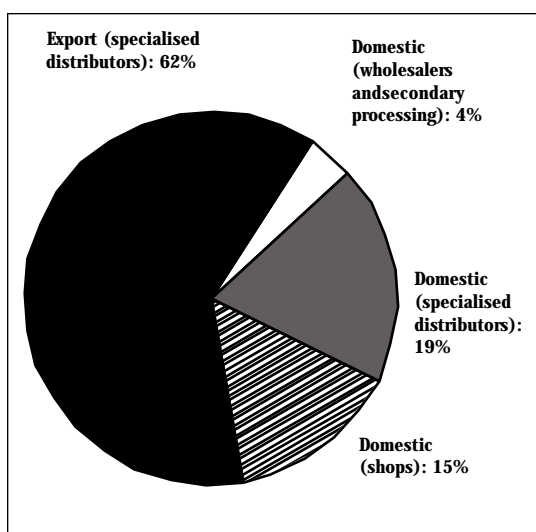
[1] Presented at the LEADER seminar “Marketing local products in short distribution channels”, Kinsale (IR), June 1997.

EXAMPLE 1: AGRONATURA (PIEMONTE, ITALY)

Agronatura was created in 1982 as a farmers' cooperative producing medicinal herbs using biodynamic processing methods.

The cooperative introduced and then extended the cultivation of medicinal herbs as an alternative to traditional crops on poor upland soils. Agronatura is currently working with a wide range of herb-based products, which it markets. In 1997, its annual turnover totalled around 330,000 euros.

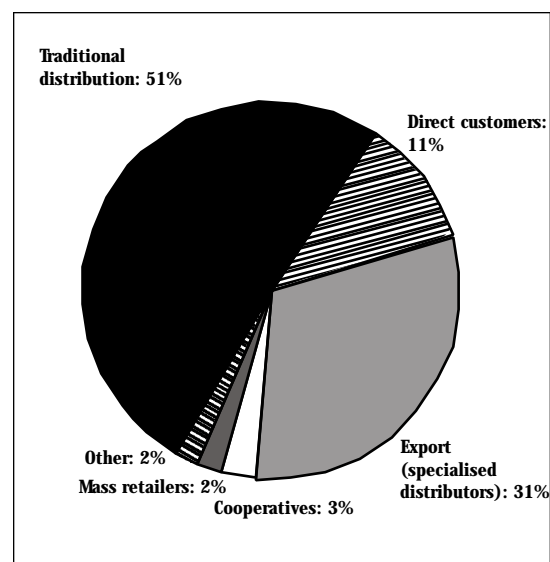
Agronatura's customers are specialised distributors and Italian as well as foreign wholesalers.



For a more detailed presentation of this enterprise, see the directory of **"Innovative action programmes and rural development"** (LEADER European Observatory).

EXAMPLE 2: AGRUPACION DE LA VALLE DEL JERTE (EXTRAMADURA, SPAIN)

This second-level cooperative – so called because it includes 14 small producers' cooperatives and more than 4,500 members – was created in 1986. Since then, it has organised a series of initiatives to exploit the potential of the local cherry sector (20% of Spain's cherry market), the produce from which was formerly sold directly to the wholesale market. The operation consisted of developing innovative products, setting up processing facilities, expanding marketing, etc. Today, the cooperative sells a wide range of extremely high quality fresh and processed products via a number of different marketing channels. In 1997, its turnover was around 625,000 euros, broken down as follows:



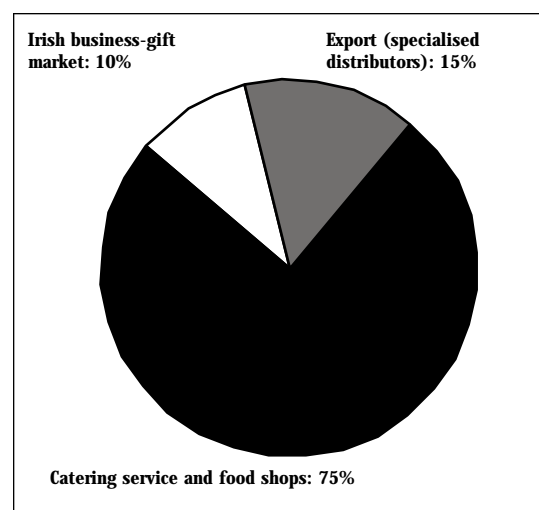
For a more detailed description of this enterprise, see the directory of **"Innovative action programmes and rural development"** (LEADER European Observatory).

EXAMPLE 3: BIA NA RÌ (IRELAND)

In 1993, "Shannon Basket of Fine Foods", a branch of an Irish venison cooperative, was created with the objective of expanding sales of food specialities from the Shannon region. The original structure gradually became specialised and expanded farther afield.

Today Bia Na Rì ("Food of Kings") is an independent company that supplies Irish farmhouse cheeses to the luxury market.

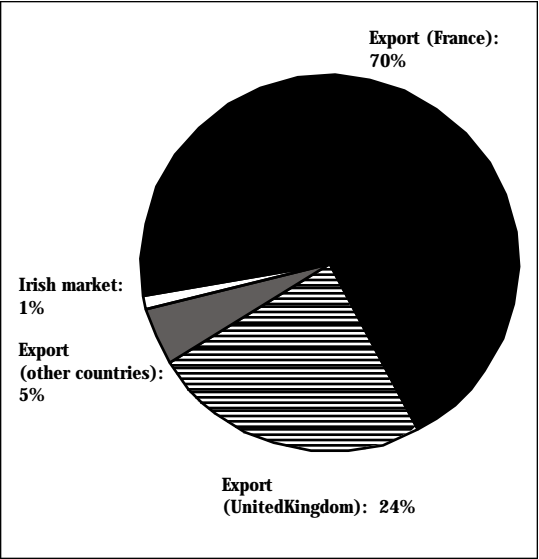
The company, which has specialised in the selection of high quality cheeses for discerning customers, sells 45 different types of Irish cheese, as well as other specialities, in Irish and foreign niche markets (turnover in 1997: 160,000 euros).



For a more detailed presentation of this enterprise, see the directory of **“Innovative action programmes and rural development”** (LEADER European Observatory).

EXAMPLE 4: FASTNET MUSSELS LTD (IRELAND)

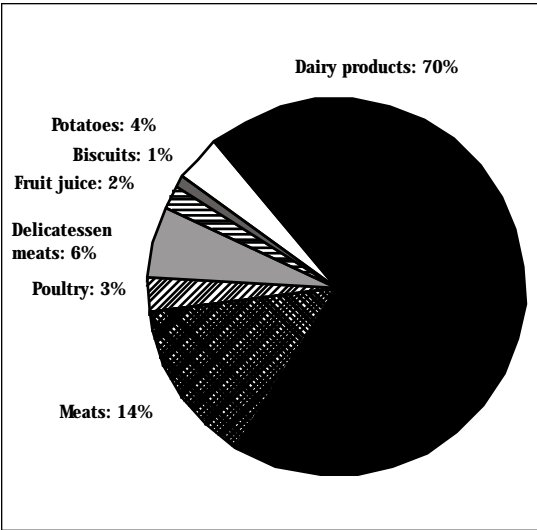
“Fastnet Mussels” is a fish farm created in 1983 as an aquaculture business concentrating on producing seafood in Bantry Bay. Originally a family business, it grew rapidly thanks to intensive work in the research and development sector, primarily focusing on product innovation. It has perfected a technique for freezing mussels in their half-closed shells that does not impair the product’s taste and guarantees a longer life span. The company has therefore been able to de-seasonalise its production and become competitive in export markets.



For a more detailed presentation of this enterprise, see the directory of **“Innovative action programmes and rural development”** (LEADER European Observatory).

EXAMPLE 5: SEINE-ET-MARNE ECONOMIC INTEREST GROUPS (ILE-DE-FRANCE, FRANCE)

In 1994, the Seine-et-Marne Chamber of Agriculture launched a marketing service with the aim of helping local agricultural producers to develop marketing channels to complement direct selling. This initiative led to the creation of two economic interest groups (EIGs), “PROFAR 77” and “PRODIFLOR”, which include 10 fresh-food producers and 10 horticulturists respectively. In the space of two years, the EIGs have set up a service for selling products to the top French hypermarket chains, which enabled them to generate turnover in excess of 600,000 euros in 1997.

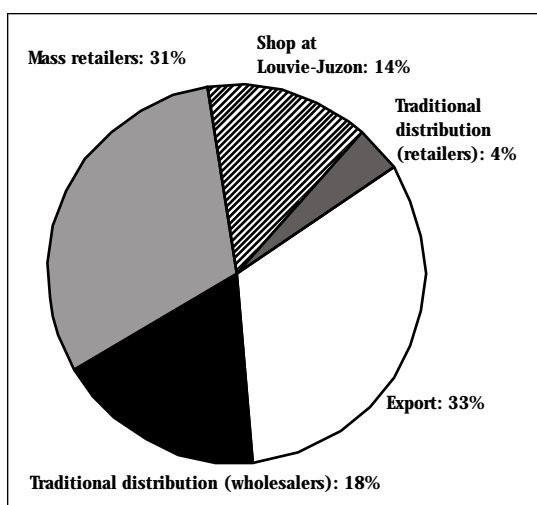


For a more detailed presentation of this enterprise, see the directory of **“Innovative action programmes and rural development”** (LEADER European Observatory).

EXAMPLE 6: SAVEURS DES PYRÉNÉES (FRANCE)

The association “Saveurs des Pyrénées” markets a range of traditional products, made by 15 small individual and collective agribusinesses in the French Pyrenees, on French and foreign markets. The association, which was created in 1984, achieved a turnover of more than 1.8 million euros in 1997, which represents around 20% of the turnover of member businesses.

In addition to its shop in Louvie-Juzon, “Saveurs des Pyrénées” operates through highly inaccessible market - ing channels, which would be extremely difficult for its members to achieve individually (organised distribution and export).



*For a more detailed presentation of this enterprise, see the directory of “**Innovative action programmes and rural development**” (LEADER European Observatory).*

Chapter 2

Conditions for success

Conditions for success

Marketing initiatives via long distribution channels involving small businesses are almost always collective in nature. Furthermore, the participation of traditional producers and/or farms in developing a product range or “shopping basket” of food products is a strategic objective for many local development groups. However, the implications of participating in this type of project are numerous and go beyond the strictly commercial aspect of the operation. The risk factors and threat of failure loom large right from the outset.

Preliminary requirements

The *preliminary requirements* for implementing a collective business development initiative generally come under four main headings:

- > **products**, which have to be of “real quality” and common characteristics like provenance, image and positioning;
- > **producers**, who must become fully involved, which means sharing goals, being willing to take an active part and accepting and applying mutually-agreed rules;
- > **the promoter group (producers, experts, etc.)** responsible for managing the initiative: it must possess resources and skills specific to the business sector (i.e. direct experience or recourse to outside expertise);
- > **collective motivation**: the working environment which encourages people to get involved in the initiative and creates the momentum and a climate of mutual trust.

2.1 Products: “real quality” is not subjective

In the area of adding value to products, reference is often made to the concept of quality, but this is not always appropriate. In a concern for clarity, our basis is the commonly accepted **International Standardisation Organisation (ISO)** definition of quality. **ISO Standard 8402** states that: “quality is the set of properties and characteristics of a product or service that enable it to respond to expressed or explicit needs of consumers”. So, according to this definition, of the myriad product characteristics that can be evaluated, only the criteria that satisfy the requirements of the user (customer, consumer, etc.) count in determining quality.

Characteristics of quality^[1]

There are several models for classifying the qualitative characteristics (or prerequisites) of food products. Without claiming to be exhaustive, the pragmatic quality approach in small local food products should include four major elements:

- > hygiene standards;
- > gustatory characteristics;
- > service characteristics;
- > image characteristics.

The promulgation of numerous Community provisions over recent years has led to significant changes in national regulatory frameworks in major prevention sectors, including **food hygiene**. The most important innovation to be introduced by these directives relates to the production, as well as the role and responsibilities attributed to the producer in the general system of controls. In a number of countries, farms and small traditional food businesses have experienced, and still do experience, great difficulties in adapting. Such difficulties are due chiefly to a lack of organisation and technical solutions suited to a small-scale business.

Compliance with European hygiene standards does, however, call for one essential prerequisite for entering long distribution channels: rigorous work, which, in the case of many small businesses in European Union countries, does not necessarily follow.

In Ireland, thanks to the quality and the innovative nature of its product, Fastnet Mussels Ltd. managed to turn exporting into its principal marketing channel (95% of sales), but in order to develop an automatic system of hygiene control the company had to invest heavily.

The producers of Seine-et-Marne (France) took the same approach, by creating an efficient service for marketing their farmhouse products to leading mass retailers. They too consider compliance with European standards for processing units to be one of the seven elements that have determined the credibility of their marketing service in the eyes of purchase centres.

^[1] See technical data sheet no. 1: Health guarantees in the agribusiness sector – a brief overview of the latest Community regulations and self-regulation

The **gustatory characteristics** are those that respond to the hedonist expectations of consumers (the “pleasure of eating”). Over recent years, the methods for identifying such characteristics have altered considerably. In a business development rationale, we do not so much call on rigorous and sophisticated analytical techniques, but rather on paying constant and methodical attention to a number of aspects that are often in danger of being overlooked. Activities such as defining and verifying the impact of the product’s principle defects, or periodically comparing the product with the products of direct local competitors, are initiatives that do not call for special resources or techniques (except perhaps diligence and hard work) but which nevertheless provide important information. It is absolutely essential for a product that is presented as being typical, made by traditional methods or “from the farm”, to be of irreproachable gustatory quality, and the best test of this is without doubt the comparative local test (a comparison with the “best local products”).

The **characteristics of service and image** are all elements that encourage consumption (storage, ease of use, information, etc.) and that meet the consumer’s expectations of psychological gratification. Here, the requirements of the customer (e.g. importers or mass retailers) and the final consumer almost always differ from the requirements of local markets. In order to access these remote markets, it is usually necessary to modify the initial product. In most cases, the modifications relate to packaging and storage, presentation of the portions or size of the product, or labelling and presentation. Nevertheless, a suitable study to define the objectives must be carried out prior to modifying certain product characteristics.

Fastnet Mussels worked extensively with the University of Cork in the research and development field. This enabled it to develop a technique (called “FIS”) for cleaning mussels without opening their shells and then freezing them in their shells, which extends their life span to 12 months whilst preserving the full gustatory quality of the product (which is impossible when mussels are frozen outside of their shells). This innovation in the service characteristics was a decisive factor in allowing the company to access export marketing channels.

The **presentation** is sometimes the only vehicle for communicating the product’s identity. According to this rationale, it is essential to define the precise content and objectives of the message that one wishes to convey. Although the packaging is meant to portray a traditionally crafted image of the product, it must also reassure

consumers and convey to them a professional image. Naturally, its price has to be adapted accordingly. It would be a serious error, for instance, to place too much emphasis on the image of quality and of gastronomic speciality to the detriment of cheap and simple packaging, when the aim is to sell through hypermarkets.

The Valle del Jerte cooperatives have developed 20 different types of packaging for fresh cherries. Each type of packaging responds to the specific requirements of a particular clientele (e.g. a packaging that can be recycled for the German market and packaging emphasising the quality of the cherries for the French market).

With growing frequency, customers are also demanding specific guarantees as to the origin of the raw materials. This criterion of “**traceability**” has become a kind of watchword in the market. It represents an indisputable safety factor and today forms an integral part of the image of local products marketed via long distribution channels.

2.2 Producers: the option of jointly conducting initiatives on a solid foundation

One of the greatest threats hanging over this type of collective initiative during the gestation period is the poor motivation of the partners involved. Although it is actually quite easy to secure a high participation rate, many of the partners are “not very convinced” and take an attitude of the “we may as well give it a try since we’ve got nothing to lose” variety. This attitude to membership is almost always more a disrupting factor than an advantage. Moreover, seeking to involve as many local producers as possible (to justify the use of public funding, for example), often leads to misunderstanding, whereas a small but united group of promoters would evidently have a greater chance of succeeding. From an “ethical” standpoint, what matters most is not so much the number of participants, but the seriousness and transparency of the terms of participation.

The Agronatura cooperative, which based its commercial strategy on the quality of its processed raw materials (medicinal herbs) and on planning its production with customers, attributes fundamental importance to the motivation of its new members. Before being admitted, new members are put through an evaluation/awareness programme, which includes a series of meetings spread over several months. This operation, which borrowed its name from the special terminology of biodynamic farming, has been termed “dynamising” new partners.

2.3 The promoter group: professionalism is more than just an option

Commercial initiatives cannot be measured in terms of sales alone.

According to this rationale, the availability of specific commercial skills is a decisive factor. Just as many management and marketing skills are required to define and carry out a development plan in a small traditional business as in a large industrial enterprise.

Due to their strategic importance, business decisions and responsibilities should not be delegated to outsiders. However, during the start-up phase at least, it is almost always essential to call in a professional expert.

The Mission Agro-Alimentaire Pyrénées (France) is responsible for providing specialised technical support to local businesses during the definition and implementation phase of their development programmes.

The producers of Seine-et-Marne (France) entrusted the strategic planning and implementation of their commercial initiative to a sales director with 20 years of experience working in the sector of organised mass marketing. With practically no specific experience at the outset and no logistical resources at all, they managed in a short time to sell successfully to leading French hypermarket chains, thanks to their investment in professionalism.

2.4 Collective motivation

The energy and charisma of promoters are decisive in overcoming the inevitable teething troubles and zealous individualism of small producers.

For many commercial initiatives, the creation of a climate of dynamism and mutual trust is not only the sole asset they have at the beginning, but also a precondition for the successful outcome of the project.

Chapter 3

Start-up

Start-up

This chapter emphasises a number of key elements that must be taken into account at the start-up phase of an initiative: planning of activities, the partnership and the sales department.

3.1 Planning collective initiatives for the commercial development of local products: customisation

- > Measures in this area must be tailor-made and adapted to the needs of the producers involved in the commercial initiative. Within a short time they need to see some initial concrete results that are quantifiable in terms of sales. This is an aspect that must be taken into consideration right from the planning phase, before launching into sophisticated market analyses and promotional activities or adopting cutting-edge telematic technologies.
- > The chief requirement of small traditional businesses, which is not always explicit, is still to set up an efficient and professional sales department at a reasonable cost that is able to accomplish tasks that would not otherwise be within the reach of individual businesses.
- > The first approach will therefore be to analyse **conditions at the outset**, or in other words, the characteristics of the businesses participating in the project. At this stage, it will be necessary to define the production structure, products, business structure, management system, the characteristics and attitude of company managers and other human relations elements^[1].

3.2 A contractually agreed partnership

- From an ad hoc promotion campaign to the creation of a fully-fledged specialist organisation, any collective business development initiative confronts participants with a number of problems:
- > they have to delegate to others tasks that they were accustomed to managing themselves;
 - > they are putting their image at stake, since their image will now be associated to a greater or lesser degree with that of their partners;
 - > they will be sharing resources, tasks, etc.

The people responsible for managing the project must also be able to rely on a number of certainties to make them credible in the eyes of their new business associates. Here we refer to the classical implications of representation (in other words, the ability to make commitments and ensure that they are complied with).

It is necessary to clearly establish from the outset a contractual platform that will govern relations between the different people involved, and that will define their several responsibilities as well as transparent terms of participation.

Project leaders should take into account the following parameters:

- > the fundamental quality criteria of the products and the origin of the raw materials used;
- > prices and pricing policy;
- > the limits of financial participation;
- > distributing tasks and responsibilities between the collective organisation and the partners.

Quality charters, specifications, contracts and so forth, however perfect, are of course no substitute for personal integrity, nor for attention to human relations in order to make an organisation “work”, all of which are decisive factors. As a consequence, investing time and resources in defining and applying highly structured internal documents may well have the opposite effect to the one intended. A few simple and clearly worded rules that meet everyone’s needs can be an effective instrument^[2].

The association “Saveurs des Pyrénées” based its relations with its members on a clear division of labour:

<u>Member</u>	<u>Association</u>
Produces	Identifies customers
Dispatches	Is responsible for promotion
Invoices	Sells

The members pay for the association’s services through a sales commission currently set at 7%.

[1] See technical data sheet no. 2: Model description of firms participating in a collective marketing project
[2] See technical data sheet no. 3: Example of an agreement protocol between the collective organisation and its members.

Every year the association, together with each member, determines the parameters of the commercial approach:

- > pricing policy;*
- > which market areas come within the association's remit and which are dealt with directly by the member;*
- > the forecast plan mentioning the annual sales targets for the different channels.*

The relationship between the association and its members is formalised in a simple and pragmatic agreement.

3.3 Creating a sales department

As in the case of product quality discussed above, it is necessary to identify the **quality criteria for the commercial system** and, consequently, to define what customers expect from the organisation (and hence its reliability).

These criteria are based on **three principal factors**:

- > the **consistent** quality of the product;
- > the **availability** of the product at the right time and in the desired quantities;
- > the appropriateness of the **price/quality ratio**.

Consistent (standard) quality means that the product has to retain its specific characteristics over time. Very often the term standard is considered to be the very antithesis of typical. This is a grave error of interpretation, since, for the customer, a product that is not consistent represents an unfulfilled promise on the part of the producer.

Product availability and strict compliance with orders are decisive in establishing the system's credibility. There is a tendency to think that these two elements follow naturally, but in fact they are almost always the greatest *weakness* of new business development initiatives. All too often there is a tendency to focus exclusively on taking measures to actually enter new marketing channels whilst neglecting the very measures needed to remain there.

Accordingly, it is essential to **evaluate the quantities involved**. In fact the "units of measurement" for local markets differ fundamentally from those for long distribution channels and the biggest risk is being too "greedy". This means not only making sure that sufficient quantities are available to comply with orders, but also carefully considering the consequences, for example, of forming a relationship with new customers that are likely to absorb more than half of the annual production. This usually leads to a loss of market share in existing niches, deterioration in payment terms, loss of contractual power, etc.

One basic premise emerges from all our case studies: no single customer or commercial channel should be allowed to become dominant.

The approach adopted by the marketing service of the Seine-et-Marne producers (France) is instructive in this respect. As soon as any of its members supplies mass retailers with more than one third of his production, the marketing service starts looking for new members to make up the shortfall.

Apart from maintaining a balance between the size of orders and supply capability, an efficient sales department must carry out **two essential functions**: organising internal relations and logistics.

It is essential for the customer to be able to contact his supplier easily, for business information (orders, changes, complaints, etc.) to circulate rapidly between the producers concerned and for a quick response to be given to the persons concerned. It is difficult to do all of this without the support of a **sales office**.

Logistics are always a problem, but some of the specific characteristics of small rural production units compound the problem. These include the geographical location of businesses, a poor road network, the small quantities available, the diversity of the products that may be included in a local shopping basket and, consequently, diverse requirements in terms of delivery frequency and transport conditions (health requirements, cold chain, etc.), the meagre resources available and the lack of local services.

It is therefore important to take a realistic approach to logistical problems and, in many cases, if it is impossible or economically non-viable to set up an efficient collective service, it may be necessary to delegate organisational tasks to each producer from the outset. According to this last scenario, the collective organisation, thanks to its network of contacts and the sources of information available to it, can be instrumental in helping its members in a number of different ways:

- > dealing with logistical problems during negotiations with customers (minimum quantities, delivery methods and lead times, etc.);
- > assistance during negotiations with dispatching departments;
- > rating service providers;
- > information and assistance with organising bulking operations, for example.

The **appropriateness of the price/quality ratio** should not be seen as an abstract notion. On the contrary, it is very specific. One of the first questions a potential customer asks himself when negotiating a deal is usually: “Is the price right?” He answers this by comparing the price asked with that for rival products. However, when negotiations take place with an organisation representing the producer, a buyer will immediately wonder whether the producer might be inclined to offer better terms directly. Of course, this kind of “short-circuiting” is very likely to put the initiative in jeopardy. It is a very common risk that must be taken into account when drawing up the contract. Although the organisation must work closely with producers when defining commercial strategies and pricing policies, it should not be too costly (in other words, it must be effective).

In short, **professionalism** is by far the most important form of investment when setting up a marketing department. What is more, streamlined and well-managed structures can achieve some interesting results, as illustrated in the following table comparing, for each case study, the human resources assigned to the sales department in relation to revenues.

These results simply indicate an order of magnitude and are not directly comparable because the department’s operating conditions in the various businesses (types of commercial activities, reference markets, etc.) differ so markedly.

Organisation	Persons working in the sales agency	Revenues managed (EUR)
Saveurs des Pyrénées	1 director 1 mass retail network manager 1 secretary	1,800,000
Seine-et-Marne EIG	1 head of department 0.7 secretary	600,000
Valle del Jerte	1 manager 1 personal assistant	625,000
Bia Na Ri	1 manager 0.5 secretary	160,000
Agronatura	0.5 manager 0.5 secretary	330,000

*The service set up by **Saveurs des Pyrénées** operates in several different marketing channels that are difficult for individual businesses to access on their own. This service is responsible for nurturing business ties with established customers, carrying out research to identify new outlets, planning and organising promotional activities, etc. The association manages its sales agency activities with a team of three people, who are joined from time to time by young trainees. This team is comprised of:*

- > a sales director responsible for relations with the members, for exports and for traditional distribution;*
- > a salesperson in charge of sales to French mass retailers;*
- > a commercial secretary who runs the office.*

The sales department must nurture relations with member businesses

Although during the planning of an initiative we have emphasised the importance of analysing conditions at the outset and of having an in-depth knowledge of the initial production framework, during the start-up and management phase the quality and intensity of internal relations between the sales department and member businesses are decisive.

As mentioned earlier, participation in this type of initiative prompts changes in attitude and at the beginning this requires an effort from businesses, which will need to learn to speak the same language. Because of

the nature of the issues addressed, these relations are delicate, in terms of both the general management and relations with the managers of each business (e.g. quality managers or marketing managers). The quality of these relations is one of the major advantages of this type of initiative. At the same time, the sales department must act as an antenna monitoring the market that captures and transmits valuable information to the businesses involved. It then supports the economic member structures in fully interpreting these messages with a view to reviewing their strategies. This is an important factor in the competitiveness of the collective organisation.

A classic example of the new collective strategy is defining a unitary pricing policy that meets the requirements of all the players involved:

*The system developed by **Saveurs des Pyrénées** provides an interesting illustration. Its pricing policy provides for a basic price, called “T100”, which is established jointly with each business in line with costs and market prices. Discounts may be applied depending on the type of business relationship and variable costs. In the French traditional distribution channel, for example, the T100 is the price offered to retailers. If products are sold to wholesalers, a discount of between 8% and 15% is applied (it is normally in the order of 8% to 10% for fresh products).*

Enterprise alone	Sales department	Together
Autonomy in deciding prices	Clear points of reference for conducting negotiations	Overall consistency of prices charged for different types of product and for the same products via different marketing channels

Chapter 4

Marketing channels

Marketing channels

There are many different forms of marketing via long distribution channels that present progressive degrees of difficulty, leaving producers free to choose which niche (or niches) suit them best and to progress gradually from traditional distribution to export, passing through the potential minefield of mass retailing.

4.1 Traditional distribution

As a reaction to the spectacular growth in the number of hypermarkets, traditional distribution has had to reorganise to respond to rapid developments throughout the entire distribution system. However, in spite of a decline in terms of market share (number of shops, number of staff, etc.), traditional distribution, both through wholesalers/distributors and individual points of sale and/or restaurants, is still an interesting distribution channel for small food businesses in many countries.

One of the strategies adopted by traditional grocery shops in order to compete with hypermarkets has been to **characterise their selection** with the aim of increasing their **specialisation** still further. In this perspective, quality local products are often used as “tactical specialisation products” that are included in the product range to underscore the trader’s specialisation.

In order to play this role to the full, products have to be “processed” in some way at the point of sale. This means that:

- > they are displayed very prominently using clever presentation tricks (e.g. special display stands);
- > emphasis will be placed on their distinctiveness (e.g. the merchandising must refer to their origin, to the way they are eaten, to their characteristics, etc.) and sometimes a tasting session is organised.

The initiatives set up by producers to encourage and support this **image policy** naturally play a very important role.

Whether one is dealing with the wholesalers who supply the shops, or directly with the traders and/or restaurateurs, developing and maintaining sales in the traditional distribution sector always requires a lot of effort. The product quantities sold in each shop are generally small and competition is fierce.

Consequently the problems associated with, for example, logistics, promotional and business costs and, in certain geographical areas, financial management, are compounded.

Saveurs des Pyrénées works in traditional distribution, selling to both retailers (a type of customer whose orders are worth only an average of 380 euros per month) as well as wholesalers. The association devotes part of its activities to a specific policy for motivating the wholesaler's sales team. To do this, it organises special presentations and the director of “Saveurs” plans sales missions during which he accompanies each salesperson when they visit wholesalers.

*In the case of **Bia Na Ri**, the segment of shops specialising in typical gastronomy and luxury catering items provides fertile ground for marketing its range of products (almost 45 different types of farmhouse cheese, together with other specialities). In order to stay in touch with this market niche, the company has devised a wide range of activities (from logistics to promotion) to tailor the service offered to each customer. This precise and meticulous work relies entirely on contacts with customers and on interpreting their specific needs. Since it must also market products made by very small businesses, **Bia Na Ri** has had to organise a “customised” service for its suppliers. It is probably this “intimate” knowledge of its customers and suppliers and its ability to act as a communication/information channel between the two that has established itself as the firm’s chief asset.*

The promotional activities of Bia Na Ri provide an example of this working style. Bia Na Ri organises thematic evenings on the subject of cheese, to which it invites chefs and distributors. Such initiatives, which allow it to present a range, are also real forums on cheese, which provide a mass of information about how the various products are perceived, current trends, etc.

4.2 Entering mass retailing

Until a short time ago, in many countries mass retailing was considered to be a marketing channel that was inaccessible to small traditional and farm-based food production units (and indeed many people still share this view). The main basis of this premise rested on quantities that were impossible to supply, unreasonable purchasing terms and the deteriorating image of quality products.

Be that as it may, nowadays mass retailers are business associates that are difficult to ignore.

Organised mass retailing, which is strongly established in France (46.7% of the entire retail trade in 1994) and in northern Europe generally, is now expanding rapidly in southern European countries like Spain, Portugal and Italy. This has meant that, in the space of a little over ten years, Italy has experienced very strong growth in the number of supermarkets and hypermarkets. If the figures of the marketing firm Nielsen are to be believed, the number of supermarkets in Italy grew from 2,030 to 5,433 during the period 1985-1995 (an increase of 168.6%) and this rising trend has continued over the subsequent three years (+7.3%). During this same period, an even sharper increase was recorded in the number of hypermarkets (+431% between 1985 and 1995 and +42.8% between 1995 and 1998).

Taking advantage of the enormous quantities of products they can shift, mass retailers impose inflexible sales conditions on their suppliers, demanding very low basic tariffs, to which they add supplementary conditions. So, every time the distributor “so much as moves a finger”, the supplier has to pay for this service, and every infringement of the stipulated agreement is subject to further penalties. Under such circumstances, the net selling price is never a known quantity for the supplier and can only be ascertained after analysing the net balance, which must take into account not only the basic price and volumes sold, but also costs relating to unsold articles, services provided, promotion (on a case-by-case or annual basis), end-of-year discounts on turnover, and so forth.

In many cases this is tantamount to a “price erosion” policy that can easily slip out of the supplier’s control and may yield negative results in terms of profit margins. In a business relationship with a purchase centre, for example, it is usual to have the following type of charges:

TYPE OF SUPPLEMENTARY COSTS/PERCENTAGE

IMPACT ON TURNOVER

Admission fee	3 – 5%
Logistics (delivery to sorting or multimodal centres)	3 – 4%
Single invoicing	0.5 – 1%
Promotion of peripheral sites	3 – 4%
TOTAL	9.5 – 14%

In the above table, the scale of expenditure is represented in the form of the estimated impact on annual sales volume, but in actual fact sometimes a lump sum is established and some of these charges, such as the admission fee, may not be covered by any guarantee as to future sales volumes or the duration of the business relationship. In the words of Jean-Philippe Arvert, director of Saveurs des Pyrénées: “Mass retailers have a short memory...”

Negotiating a path through mass retailing

Mass retailing cannot be represented as a single model. It is more akin to a constantly shifting network of marketing channels in which marketing policies (the types of consumer they target change, for example), the size and, consequently, the volumes specific to each point of sale (hypermarkets, supermarkets, etc.), as well as the internal organisation and purchasing system, differ:

- > major groups **running HYPERMARKETS** – which extend throughout the country and abroad and within which the role and power of purchase centres is growing. This means that it is becoming increasingly important to maintain good relations with such purchase centres, even if this causes obvious difficulties (e.g. with available volumes);
- > medium-sized sites – **rural supermarkets**, which have some freedom when it comes to making purchasing decisions and almost always tend towards a policy of characterisation and identification with the area;
- > small regional stores.

Each of these retail chains adopts a very different commercial approach, and such differences naturally have a considerable impact on the nature of the relationship with producers and the latter's strategy options. In countries where mass retailing has grown significantly, it is, however, possible to encounter a common disruptive element. In their frantic bid to interpret the slightest nuances of customer demand and consumer lifestyles, the marketing managers of major chains are often completely at a loss to account for an enormous "black hole" which in France is described as the phenomenon of "consumer zapping".

4.3 Finding out what makes the consumer-zapper tick

It has emerged that a large category of consumers is almost indifferent to product brands or trade names. In short, they chose products with no apparent logical motivation. This phenomenon may be due to a number of factors, such as the gradual decline in the number of product lines on the shelves, the standardisation of promotion policies, too much advertising, etc. To counteract this, the major chains have introduced a policy of characterisation, with the aim of reviving their customers' interest. As a result, in many countries today a local approach and the introduction of products with an image of "traditional quality" (always prized by consumers) have become two of the most favoured tools. This development has aroused renewed interest in small cottage-industry production units on the part of the major chains and, as a corollary, a greater willingness to negotiate different, less restrictive purchasing terms than for other product lines. Proposing, for example, periodic sales promotion activities, organised by the customer (producer), in a professional manner but with strong characterisation associated with the identity of the products presented, is a decisive factor in negotiations to keep price erosion to the minimum.

The Seine-et-Marne Chamber of Agriculture (France) has developed a business strategy for entering the hypermarket distribution channel. Its business negotiation policy is based on a number of key strengths:

- > *approaching mass retailers in two phases: downstream of the purchase centres and negotiating with individual hypermarkets;*
- > *promotion at points of sale, based on thematic promotional activities;*
- > *rejection of the policy of "price erosion" very often practised by the purchasing departments of mass retail operators.*

By presenting products to national purchase centres it is possible to match products with demand in terms of presentation, labelling, wrapping, packaging and price range. After the bid has been accepted, one is in a position of power to tackle the negotiation phase with each individual hypermarket. This preliminary visit makes it possible to target the points of sale effectively and to contact only those that are sure to need the product being offered. The next stage is to negotiate the delivery terms with the purchasing manager of each point of sale (volumes, prices, payment terms, logistics, administrative details, positioning of the products on the shelves, promotional activities, etc.). Based on these elements, the strategy consists of guaranteeing sales outlets by stipulating with customers, after a trial period, a growing or production contract to formalise their mutual commitments.

The credibility of the service relies on a number of key elements:

- > *a broad and "tailor-made" offering, whatever the production sector;*
- > *products of irreproachable quality;*
- > *a partnership based on specifications and product traceability;*
- > *compliance with Community health standards for farm processing units;*
- > *transparency of tariffs, whatever the shop;*
- > *developing the commercial brand;*
- > *involving producers in the thematic promotional activities that are periodically organised in hypermarkets (once or twice a month).*

Sales promotion activities are as much appreciated by hypermarket managers (because they liven up the aisles), as they are by farmers (who are able to rapidly sell off any product surpluses and attract new customers to their farms). Most promotional activities are spread over three days, from a Thursday to a Saturday. For special occasions, they may last a week.

In fact the direct participation of producers in promotional activities forms part of a wider-ranging service strategy developed by the Chamber of Agriculture. This includes professional development for producers in the sector of regional marketing and changing the way they see their business and its positioning in a competitive, market-oriented context. The manager of the service therefore periodically organises sales training sessions for the members of EIGs and invites them to come along when negotiating sales with the hypermarkets.

4.4 Foreign markets

Foreign markets represent a promising outlet for a wide range of local products. Aside from an explosion in demand for certain products (e.g. in northern Europe for fresh organically grown products and virgin olive oil from the Mediterranean), there are signs of a more general openness in markets that makes them accessible to traditional production units. Moreover, in most European countries, the consumption of foreign food specialties has, for many different reasons, developed beyond a mere niche market, as evidenced by the interest shown in them by the greatest of mass market specialists – mass retailing chains. Many of these have stepped up their promotion campaigns and promotional and thematic activities (nation-wide operations, “countryside weeks”, etc.) in an increasingly sophisticated bid to improve their staging and choreography.

Initiatives to develop cross-border marketing channels present a number of distinctive features to do with geographical distance and cultural differences. This means that the initial phases of identifying potential customers and starting up the business relationship generally require heavy investment in terms of time and resources (translated into high costs). The most common type of activities in this field include participation in international shows, specialised trade fairs^[1] or export missions. Furthermore, national and regional organisations specialising in exports (Food from Britain, Sopexa, Catalanian Quality Foods, etc.) provide interested firms with a wide range of highly useful services:

- > participating in shows, fairs, etc.;
- > sending a mailshot to the buyers of leading distribution groups and the most active importers;
- > holding promotion weeks and other promotional and selling activities (merchandising) at the points of sale of mass retailers;
- > collaborating with buyers in seeking products (presenting firms, organising samples, meetings, company visits, etc.).

*In the case of **Fastnet** of Ireland, its presence at specialised shows organised in “target” countries (France, Belgium, etc.) has been its main method of sales penetration into the export market. In this firm, which invests nearly 25,000 euros in such activities each year, they follow up every participation with a report, a cost and revenue analysis and coordination of the contacts made with sales representatives. According to Fastnet, the special assistance of the B.I.M. (Irish Seafood Board) has been very effective.*

However, such services do not always respond to the specific needs of business firms and, even where they are free of charge, they entail a whole series of costs that must not be underestimated. This type of participation should therefore be selected cautiously and courses of action must be carefully planned.^[2]

It is also possible to envisage planning and carrying out entirely independent sales-penetration operations abroad.

*The “**Saveurs des Pyrénées**” sales penetration method of organising export missions to test out one or more specific products on the foreign market and developing sales in a specific country, provides an interesting example:*

- > *Phase I: completion of a preliminary study to describe the reference scenario, including drawing up a list of potential sales operators and a questionnaire to be put to them, followed by an appointment to see them. This essentially documentary and telephone-based research is generally entrusted to a trainee and coordinated by the director of the association. This phase sometimes lasts several months;*
- > *Phase II: an on-site mission of between 8 and 10 days by the director, consisting of a series of targeted interviews with sales operators (importers, buyers, etc.). The final report on this mission, analysing the opportunities for each product, is studied with the firms involved.*
- > *Phase III: if the conclusions prove positive, a sales penetration plan is then developed.*

In the light of its experience, “Saveurs des Pyrénées” considers this method to be particularly effective:

- > *the average quality of business contacts is better and the results are faster in terms of business ties (sometimes immediate) than the results obtained with other initiatives (shows or institutional missions);*
- > *the cost is reasonable. It has averaged 2,286 euros (762 euros for the preliminary phase and 1,524 euros for the on-site mission).*

[1] See section I “Marketing products via short distribution channels”.

[2] See the dossier “Exploiting local agricultural resources: the experience of LEADER I”, LEADER European Observatory, 1995.

It is generally slower to use this method of establishing business ties in export markets, but when foreign customers have had the chance to test the credibility of their business associates, they tend to be more loyal. In this type of business relationship, the “trust” factor takes on greater importance because, for the importer, it would be more troublesome to accredit new suppliers.

It is also common for the customer (the importer) to ask to “control” the brand that he is planning to introduce into his specific market. This usually takes the form of requests for exclusivity or for the product to be sold under a special new brand.

Conclusion

Conclusion

Faced with the growth in consumer demand for products that are safe, yet also authentic and unique, rural areas are able to provide an appropriate response to the needs of city-dwellers, based on a number of key elements:

- > the integrity of the product environment (and hence the raw materials);
- > a cultural identity founded on solid traditions;
- > a quality of life in terms of time, space, social relations, etc.

Increasingly, the ability to convey such values means having a certain competitive advantage over industrial competitors, despite the colossal resources they expend on advertising.

News programmes are continually reporting consumer concerns about recurrent difficulties in the agribusiness sector and recent surveys have shown that consumers are becoming more willing to alter their food-shopping habits, provided that the price differential is reasonable.

Certain hypermarkets have fully grasped this opportunity and are positioning themselves in the debate on quality and genetically modified organisms (GMOs). They are placing more and more organic product lines on their shelves (vegetables, meat and dairy products) – including under their own brand name – as well as “local” products. Itinerant open-air markets, shops specialising in quality products or organic products and sales “from the farm” are all increasing significantly.

In the space of only a few years, food quality and safety have become a major preoccupation of Europe’s citizens.

The current focus on quality and safety offers a growth opportunity to producers who are able to organise themselves, professionalise and provide real quality guarantees in a market that, while expanding, is both demanding and competitive.

This dossier about product marketing – together with the other dossiers produced by the Observatory – is designed to provide effective responses to local players who have decided to embark on this approach or to pursue it further.

Section 3

Appendices: technical data sheets

Health guarantees in the agribusiness sector – a brief overview of the latest Community regulations and self-regulation

Food legislation is one of the sectors that has been most heavily influenced by Community law, with more than four hundred regulatory provisions (regulations, directives, etc.) having been promulgated to harmonise the food legislation of individual Member States and to allow the free movement of food products within the Community market.

N.B.

As a result of European Commission proposals, Community health legislation in the agribusiness sector will change in the year 2000. The following text is meant to serve only as a guide, even though a number of the elements contained in it are not expected to change.

The changes will involve both the “vertical” standards that govern each product or specific sector and the “horizontal” standards that govern general aspects common to all products, such as labelling or establishing uniform criteria for carrying out official controls.

The numerous Community provisions include two directives on official food controls (Directive 89/397 of 14.06.89 and directive 93/99/EEC of 29.10.93), as well as the directive on food hygiene (Directive 93/43/EEC of 14.06.93), which are due to have a more far-reaching impact on the activities of the prevention departments of the competent supervisory bodies.

The role entrusted to producers in the general control system is the most novel element of these directives.

A typical feature of the Community regulations is to increase the responsibilities of company managers, based on the fact that appropriate and ongoing measures to eliminate or reduce hazards can be guaranteed only by the businesses themselves internally.

According to this rationale, the producer is no longer

subject only to constraints and obligations, but also plays an active role in, and has direct responsibility for, the adoption of measures to ensure food health safety. Indeed he is obliged to control the entire processing procedure, to identify the phases critical to food safety and to adopt appropriate monitoring and control measures, in line with the principles of the Hazard Analysis Critical Control Point system (H.A.C.C.P.).

For today's producers “process control” essentially means preserving the integrity and guaranteeing the hygiene of its food products.

In other words, they must not only control the infamous “invariable factors” (criteria imposed by the laboratories), but also the “variable factors” (management) as well as pay special attention to safety and hygiene, which are both subject to controls on the basis of specific criteria.

Self-regulation

In today's society, nutrition is indeed playing an increasingly strategic role that hinges on two major elements:

- > product quality;
- > consumer safety.

Self-regulation is now an essential requirement for obtaining Community recognition, and European inspectors control the existence and conformity of self-regulation procedures in the food industry.

Self-regulation relies on the principle of an “obligation to guard against health hazards”. Production costs must also include the hygiene guarantees provided by food companies.

Guaranteeing health quality entails controlling the entire production cycle, the chemical, physical and bacteriological aspects of raw materials and of semi-

finished products, production methods, storage, transport and, last but by no means least, product control. Periodic controls and analyses must be carried out to verify the system's effectiveness.

For food companies, guaranteeing the safety of food products and their compliance with health requirements is the best guarantee of hygiene and safety for consumers.

For producers, this means:

- > adapting production structures and phases to comply with the legislation;
- > training their personnel properly;
- > basing their business on sound control methods.

Official controls are the responsibility of the Health Ministry, but if self-regulation is properly managed, such official controls will become more targeted, fewer in number and less costly.

Community Directive 93/43 on food hygiene and self-regulation

Community Directive 93/43 on food hygiene stipulates that traders must adopt specific self-regulation procedures that involve identifying the critical points in their business activities.

The objective is therefore to actively involve business managers in determining and maintaining optimum health and hygiene conditions.

H.A.C.C.P.

The method for introducing self-regulation is called H.A.C.C.P. (Hazard Analysis Critical Control Point).

The H.A.C.C.P. system is applied using a logical sequence of 12 different phases, hinging on seven basic principles.

Developing the system involves:

- > analysing potential food hazards;
- > identifying any points where there is a potential food hazard;
- > adopting decisions with regard to any critical points that have been identified which are liable to jeopardise food safety;
- > identifying and applying procedures to control and monitor these specific critical points;
- > periodically re-examining and, should the food company's activities change, analysing any food hazards, critical points and control and monitoring procedures.

Model description of firms participating in a collective marketing project

GENERAL DESCRIPTION OF THE FIRM

General characteristics of the firm

(type of business, ownership, size, location, history and other information relevant to describing its general profile).

General description of business activities

Production process, organisation chart, products, market and competition.

PRODUCT CHARACTERISTICS AND BUSINESS STRUCTURE

Range of products and market situation

For each product or line:

- > description of the product or line
- > sales volumes, turnover, break-even point, development, trends, prospects
- > price policy (basic price scale and systems of discounts and offers in line with the type of clientele and/or product quantity)
- > direct and indirect competition
- > competitiveness and the firm's ability to distinguish its product from those of its competitors
- > positioning in the market segments in which it is interested
- > the firm's position in market areas where it is active (relationship between production volume/size of the market areas)
- > trends, prospects and development plan.

General analysis of sales by type of marketing channel: direct selling (own shops, mail-order selling); local markets (retailers and local restaurateurs); wholesalers; mass retailers; purchasing groups; export.

Business structure

- > Employees and responsibilities; physical resources; direct and indirect network (including representation), main customers (names, location, products purchased, percentage of the annual sales volume, terms and conditions of ongoing contracts)
- > methods used to identify potential customers
- > distribution systems.

Market policy and means used

- > sales literature (price lists, catalogues, leaflets)
- > other promotion tools
- > direct advertising
- > advertising at points of sale
- > promotion at points of sale (promotional activities, tasting sessions, etc.)
- > shows and exhibitions, both nationally and in export markets, etc.
- > other (public relations, guided tours, etc.)

Business costs

- > analysis of overall marketing costs and as a percentage of sales: personnel (including social security charges)
- > travel
- > packaging
- > transport for sales
- > promotion, advertising and communication
- > sundry expenses
- > depreciation
- > financial charges.

Business results

- > analysis of management and business costs for each type of market niche
- > ratio between such costs and corresponding earnings
- > comparative net profit for each type of niche in relation to the average sales price and the amount of business costs

Example of an agreement protocol between the collective organisation and its members

Article 1 – Mission statement

As from the date stipulated in this agreement, the association shall, on behalf of the member, manage a non-exclusive mission to plan, set up, coordinate and manage a distribution business.

This mission is based on the products, customer categories and geographical areas mentioned in the appendix.

The association has the required human and material resources to perform its mission.

The association and the member agree to abide by the obligations and provisions laid down in the following articles in order to optimise results.

Article 2 – Obligations of the association

The association agrees to:

- > mobilise all of the means at its disposal to fulfil its mission;
- > inform the member about the place his products occupy in the markets, in other words, about production and product trends, price competition and business development prospects;
- > ensure, before appointing a distributor, that the member does not already have a sole distributor in the geographical sector concerned;
- > ensure that the price conditions and other sales terms have been properly laid down in agreement with the member;
- > transmit to the member all of the information at its disposal about customers and, in particular, whether they are “payers”;
- > in the event of a delay in payment, to instigate a systematic procedure to remind the customer of amounts due to hasten payment of the outstanding amount.

The association may not under any circumstances, even where it has acted as an intermediary for invoicing merchandise, be deemed financial liable for any payment problems.

The association's involvement shall be limited to issuing the payment notice.

Any damages and costs arising from the debt recovery procedure shall be entirely at the member's expense.

However, in the event non-payment of an invoice, the member may submit a request for reimbursement of the commission paid on that order.

The member's request shall be examined by the board of directors, which shall decide on the matter.

Article 3 – Obligations of the member

The member agrees to:

- > ensure normal availability of his products in terms of both quantity and quality;
- > notify the association at the earliest opportunity should he foresee a possible stock shortage;
- > guarantee proper packaging and dispatch conditions within the allotted time frame;
- > supply the association with all of the available literature and promotional tools to enable it to fulfil its mission;
- > supply the association immediately with any requested analyses or samples in the desired quantities;
- > supply, in a precise and detailed manner, all of the technical specifications concerning his products;
- > send, prior to 30 October of each year at the latest, its base 100 price lists to be applied between 1 January and 31 December the following year. These price lists shall specify the discount rate applicable for each type of customer, as well as any deductions associated with these discounts;

- > be in possession of all of the health and administrative documents required for dispatching the products to their final destination;
- > guarantee that invoicing is correct and complete;
- > communicate to the association all of the information in his possession about how the customer rates as a “payer”;
- > transmit to the association all of the orders placed by the customer;
- > supply every month, before the fifth of the month, a copy of the customer invoices administered by the association.

Technical data sheet no. 4

Export missions: standard survey questionnaire for commercial operators

What type of products do you market?

dried products
alcohol (wines and liqueurs)
canned food
fresh products
other

Who do you supply?

Why?

To what type of customers do you sell your products?

Profile of the consumer/customer
Profile of the wholesaler/customer

What is the breakdown of your turnover per product and in total?

How often do you get orders for quality products?

Seasonality of sales? What is the minimum volume per order and per product?

What is the buying priority of your customers? (indicate the top three priorities):

luxury products; domestic products; traditional products; regional products; products from a good brand; products with an original taste, quality recipe.

What are the three main criteria that influence your choice of supplier?

price; low commission; staggered payments;
staggered delivery; packaging; service
Why?

What do you want from your suppliers?

meeting days, tasting sessions
samples
documents, leaflets
posters, banners
films

Have you had problems with your suppliers?

If so, explain how you rectified the problem.

What is your margin for each product?

What are your payment delays?

payment on receipt; after 30 days; after 60 days
after 90 days

What methods of payment do you use?

cheques, drafts, endorsed cheques

What are the methods of delivery for imported products?

shared cost; free to the border; free to customs
free to customer's premises

**SHOW THE PRODUCTS TO THE INTERMEDIARY
AND ASK HIM**

What positive images do these products convey?

At what social category of customers are they aimed?

Which are the regions and cities where there will be the greatest demand?

What are the major distribution channels best suited to this type of merchandise? Why?

Under what image should these products be sold: luxury products or traditional products?

Is the way in which our products are made and labelled suitable for the market?

Are you interested in having our range? Why?

What are the strengths/weaknesses of our products?

price; low commission; domestic product; luxury product; traditional product; regional product; packaging; advertising at the sales site

How do you envisage the current trend for the brands of quality agribusiness products (in relation to your company)?

1. SURVEY ON THE SUPPLIER'S CURRENT CLIENTELE

Information about competitors

To what type of customers do you sell your products?

(Direct consumers and wholesalers)

What are the main qualities your clientele is looking for? (indicate the top three priorities)

luxury products; foreign products; traditional products; regional products; products from a good brand; products with an original taste, quality recipe

What are the three main criteria for your choice of supplier?

price; commission percentage; staggered payments; staggered delivery; packaging; service

Is the way in which our products are made and labelled suited to the image of traditional products?

Will the product meet consumer expectations?

In order to sell our range of products as effectively as possible on your domestic market, should our organisation emphasise your luxury image or your traditional image?

Why?

2. ANALYSIS OF THE RANGE

Do you often hear about our range?

Are you interested in having our range?

Do we offer a sufficiently representative range of products from our region?

What product is missing from our range?

What are the strengths/weaknesses of our products?

price; low commission; foreign product; luxury product; traditional product; regional product; packaging; advertising at the point of sale

How do you envisage the current trend in the brands of quality agribusiness products (in relation to your company)?

Other information about our competitors?

Leader II est une Initiative communautaire lancée par la Commission européenne et coordonnée par la Direction générale de l'Agriculture (Unité VI-F.II.3).

Le contenu de ce dossier ne reflète pas nécessairement les opinions de l'Union européenne.

***Leader II** is a Community Initiative launched by the European Commission and coordinated by its Directorate-General for Agriculture (Unit VI-F.II.3).*

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