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Table of Content

1. Introduction

This report is produced in the frame of Work Package 5 (WP5); subtask 5.4.1 of the TRUEFOOD-project. The aim of subtask 5.4.1 is to develop innovative distribution strategies for traditional food products. In order to reach this objective, at first an inventory and a compiling exercise was carried out during which potential distribution problems of traditional food products were collected. Experiences from consumers (WP1), producers (WP5.2, WP5.1) and other chain participants (WP5.1) served as a base for this exercise.

To fulfil this task we focussed on the following issues:

- Marketing management
- Supply chain management
- Innovation

These three issues were specifically investigated and analysed regarding to their contribution to:

- Distribution
- Added value
- Convenience
- Labelling

Distribution lays in a crucial interplay area of the Supply chain: although distribution hints at the “right wing” extreme of the system, it shows a complexity that only rarely can be registered at other segments of the chain. The more the system shifts towards the final consumer, the more the decisive knots of the interrelationships among the different members of the Supply Chain (SC) emerge critically, often defining the real nature of the studied SC.

Small and Medium Enterprises (SMEs) of traditional food face a host of difficulties and challenges in terms of distribution. An overview of broad classes of such problems is presented in the following table:

Table 1 - Classes of distribution problems for SMEs producing traditional food products

Problem	***Explanation***
Access	If a product is not a “must-in” (as the national brands), a retailer can decide not to include it (or to de-list it); if there are exclusivity contracts, a producer would not reach the commercial areas where its retailer is not present; whatever the reason, without access to the shelf, the producer cannot sell anything (in certain areas) and the consumer might lose the “tradition” of buying that product (de-learning).
Visibility	A small producer might work for commercial brands that “hide” its own name on the product’s label; the consumer loses the awareness of the producer brand and the related reputation for quality.
Margins	Tough, fair (or unfair) negotiation between retailer and producer (possibly through intermediaries) might level off to almost zero the profit margins of the producer. Unwritten contract can allow the retailer to abruptly change the quantity ordered, without keeping into account the production cycle, the optimal efficient level of production, previous investments.

Investments	If the producer makes no overall profits, self-financing of investment is impossible and obtaining external funds difficult. This damages the possibility of dimensional growth, modernization, advertising. However, the retailer can selectively enhanced specific investment plans.
Innovation	Original research on innovative processes and products is hindered by economic difficulties. Its direction tends to be the reduction of costs instead of quality enhancement.
Survival	For many small firms, there is a risk of disappear, possibly during the difficult phase of entrepreneurial succession.
Authenticity	Under stress for profitability and survival, traditional food producer could reduce the authenticity of the production process and the quality of ingredients. Firms survive but the tradition does not.

In dynamic terms, current retailing evolution engenders several risks for traditional food (TF) producers:

- when they are linked to a wide number of small shops (possibly through the intermediation of wholesalers), the economic crisis of the latter (due to the entrance of supermarkets and hypermarkets) might decisively impact on sales of producers;
- when lower-cost producer of a substitute for a high-quality TF offers higher margins to retailers, they will "push" the former (in terms of shelf position, promotions,…);
- if a tradition decreases over time, the TF might be de-listed because there is strong competition for shelf place (for which a fee might be required as "slotting allowance" or even "pay-to-stay").

A strong positioning in the main trends of retail evolution is thus key to business success in the sector. Accomodating for the needs of the different distribution formats and exploiting innovative channels become pro-active strategies for far-sighted producers.

Due to globalisation and a relative convergence in consumer shopping styles, all this tends to be true in many countries, possibly each at a different stage in the same "retail transition". For reasons that will become evident in course of reading, examples and generalizations will thus take Italy, France, Spain and other European countries, including the UK, as privileged geographical areas for collecting and analysing the challenges and strategies described and recommended in this text.

2. Hungarian report

2.1. Background

Until the last decade traditionally the small shops (groceries, butchers, bakeries etc.) were typical and successful in Hungary. The major part of the products manufactured by the primary production (animal breeders, vegetable growers) and processed by the food industry were forwarded to the consumers through this distribution channel. Recently large and capital-intensive international multiple supermarket chains appeared in Hungary and started to dominate the grocery market. The number of these companies is very high in Hungary compared to the international data. The concentrated purchase is managed typically by these multiple supermarket chains where the calculation of prices happens by the use of "buyer's power" position as the main process driver. These multiple supermarket chains expand very quickly and sell often their food products under the purchase prices to attract more customers. There is a tough competition among them. Unfortunately the SMEs do have not adequate capital resources to reach the supplier's position in the multiple supermarket chains and can't sell their products in distant markets. They are in disadvantaged position and many of them went bankrupt. Only those small and medium sized companies are operating relatively successfully, which were specialised in a specific activity or products (meat products).

2.2. General structure of the distribution chain

Generally the distribution chain consists of the food manufacturers, intermediaries (whole-salers, retailers) and the consumer. Long chain and short chain are distinguished. The direct selling is the short chain, with no intermediaries where the food manufacturers sell their own products directly to the consumers, mainly in a specialised local shop established very close to the plant.

Concerning the direct selling an other type of direct selling can be mentioned where the multiple retailer chain manufactures its own retailer branded products in the supermarket and sell it for the consumer in place. More and more multiple supermarket chains manufacture bakery and confectionary products (e.g. breads, cake, desserts, sometimes traditional desserts: like "Somlói galuska" in the store that resulted in significant changes in the distribution of these products, nowadays in Hungary the 70 % of the bakery products are sold in the hypermarkets and only 10% in the own specialised shops of the bakery businesses.
The grocery market represents the longest distribution chain, because the products are forwarded by two intermediaries (wholesaler and retailer) to the consumers.
At the hypermarkets we can usually anticipate that there is only one intermediary. But there are a few cases when local product producing and marketing organizations ("TÉSZ") organize production of smaller farmers, collect the products in the area, grade and pack them and sell them to retailers under their own brand name. This is more typical for vegetable and fruit crops like onions, green peppers, potatoes, tomatoes, cherries etc. Their number is growing and their establishment and operation has been supported by the agricultural policy of the government.

In the case of the traditional products like dried fermented sausages manufactured by medium sized companies the type of distribution is extensive, because these products are widely available as well as in the local, as in the regional and national markets. If we consider a particular traditional product such as "Hortobagyi biosalami" what is an organic salami type with indication of geographic origin this product is distributed through exclusive distribution chains, because it is available only in selected locations such as company owned shops or specialised (brand) shops.

2.2.1. Short overview of the vegetable/meat distribution chains in Hungary

Distribution channels of vegetable products in Hungary

Distribution Channel	Purchasing from	Selling to
Retailers - hypermarket chains supermarket chains	Product marketing organizations, large growers, food manufacturers, importers Product marketing organizations, large growers, food manufacturers, importers	Consumers, small caterers Consumers
Discounters	Product marketing organizations, large growers, food manufacturers, importers	Small caterers, small retailers, consumers
Whole-salers (markets, + distributors)	Product marketing organizations, growers, food manufacturers, importers	Caterers, small retailers, shops on local fresh markets, small quantities of ingredients for food manufacturers
Local fresh markets	Growers, wholesale markets, whole-salers, own produce	Consumers, caterers
Small shops (in purchasing associations)	Product marketing organizations, large growers, local growers, food manufacturers	Consumers, caterers
Independent small shops	Wholesale markets, whole-salers, local growers, food manufacturers	Consumers

The main fruit and vegetable distribution channels are the followings:

- Short sales way (direct sales, local grower markets)
- Traditional distribution channels
- Integrated channels (one member of the distribution chain coordinates the sales)

Distribution channels of meat products in Hungary

Distribution Channel	Purchasing from	Selling to
Meat traders (wholesalers) with big capacity slaughterhouses	Pig breeders, Smaller slaughterhouses, manufacturers, importers	Supermarkets, small shops, HORECA, food manufacturers
Wholesalers	Slaughterhouses (domestic and abroad)	Small shops, supermarkets, HORECA
Manufacturers	Slaughterhouses	Wholesalers, supermarkets, small shops, local market shopkeepers, HORECA,
Supermarkets	Wholesalers, manufacturers	Consumers

Local market shopkeepers	Manufacturers	Consumers
Small shops	Manufacturers, wholesalers own production	Consumers
HORECA	Wholesalers, manufacturers	Consumers

In the last decade the distribution system of the meat products has been changed significantly. After the privatization there were several large meat processors and a significant number of small and mediums sized companies who had their own means of transport and opened own retail shops. As a consequence of the lack of appropriate business experience and financial resources and also the necessity to meet the EU hygiene requirements many meat processing business went bankrupt, and there was a significant concentration of the large companies. New specialised wholesalers and logistic service providers were established and the hypermarket and supermarket chains took over the majority of the retail activities. Most of the privatised small companies were not successful because of the lack of capital and the lack of management experiences. Only those small and medium companies are working actually, which were specialised on a special activity or product.

2.3. Supply chain management

2.3.1. Logistic problems:

The specificity of the agricultural and food industry logistic system also can generate problems in the distribution chain. Less transportation and logistic problems appear in the short distribution channels, where the SMEs directly sell their products to the consumers on the local markets. As a consequence of the seasonality of the agricultural production and consumer's habits to buy significantly larger amount of food than usual at some holidays e.g. Christmas, Eastern etc. the necessary storage and transportation capacity is not uniform throughout the year, but there are significant variations and peaks. The medium size and large companies, selling their products in the hypermarkets involve intermediaries. The different ways, by which products are transported from manufacturers to the consumers are the following:

- the food manufacturer carries out the transportation with their own or rented vehicles ;
- the retailers carry out transportation with their own or rented vehicles;
- the transportation is carried out by logistic service providers;
- the transportation is carried out by the wholesalers to the small retail shops

The transportation also needs specific equipments, vehicles. It is expensive to buy them, which is reflected also in the renting prices and in the prices of these services. SMEs lacking adequate capital usually can't afford to invest on their own into transport vehicles, and also purchasing distribution services on their own may be fairly expensive for them. This is the reason why the experts suggest closer relationships, cooperation and networking for the traditional supply chain members. To rent vehicle from the same service provider jointly and organise the transportation to their clients together could be a cost efficient solution for these SMEs .

The type of the equipments, means of transport have to be chosen according to the nature of the products the external circumstances, and the legal requirements. For the transportation of chilled and quick-frozen products refrigerated trucks have to be applied. The railway transportation is chosen very rarely because it takes long time in Hungary.

As everywhere in the world maintaining the cold chain, monitoring of the temperature and providing evidences of the proper operation needs extra efforts.

2.3.2. Centralized warehousing and logistics

Until recently, the major market players have relied upon their suppliers to deliver direct to stores. Recently several retailers started to centralize distribution. Their first move was to build their own distribution centres (store houses), which act as hubs and in order to reduce aggregate stock cover, reduce working capital, simplify supply chain management and avoid stock-outs. By preparing aggregated supply for each retail store according to their specific need a significant reduction of the costs and better management of the supply operation can be achieved, and also the queuing at the individual stores, waiting for the intake of lots will be reduced, which cause waste of time, energy and quality problems. Thus the development towards the centralisation of the distribution system brings benefits, but its profit is mostly kept by the retailers. On the other side the West-European examples show that these development increase the dependence of the food business further, especially when backward logistic systems are introduced. In the backward logistics the retailers take over the control over the logistic activities between the food manufacturers and their distribution centers. They organize the transport of palettes, crates etc. back to the suppliers with their own means of transport or with their appointed transport service providers and collect the products manufactured for them with the same tour. Thus they press down the logistic prices, charge their suppliers for this service and make additional profit on them. Thus they increase the power imbalance between the supply chain members. Backward logistics is not applied yet in Hungary, but some retailers try to enforce the use of third party hauliers appointed by them.

To ensure the continuous supply of goods to the consumers the implementation and use of RFID solutions can be a benefit for stock management. This method can be a good tool to follow and trace the movement of goods in and out from stock (traceability).

The large logistic service providers are more and more encouraged recently now to establish businesses in Hungary. Some of the logistic service providers e.g.: Rynart, recognized the opportunities and made big investments in Hungary. There is a new practice in Hungary that the ALDI supermarket chain is building a huge logistic centre first near to the capital before any Aldi store is opened.

There are relatively cheap and efficient electronic systems available for controlling stocks and stock rotation, which are widely used at the large and medium sized companies and less frequently used at the small business.

2.3.3. Relationships with retailers and wholesalers

The imported products originating from EU and third countries are purchased by the hypermarkets from the wholesalers. In this case the retailer has no direct relationship with the food manufacturers. The wholesaler is responsible to ensure the safety and legality of the product from entering into the country till the retailing on the domestic market. While the majority of the multinational retailers operating in Hungary request from their domestic suppliers to meet the requirements of some specified food safety management systems like British Retailer Standard (BRC) or the German–French International Food Standard (IFS) or their own specific systems based on the principles of BRC and/or IFS, this is not always the case for the suppliers from outside Hungary. This is causing an unbalanced field of competition for the Hungarian manufacturers. This relationship has to be contractual. On the grocery market the relationship between the wholesaler and retailer is also contractual.

The small shop owners purchase goods in "cash and carry" warehouses, wholesale markets, or directly from the manufacturers. At some of these actions invoices are not prepared, what can be a major issue in the case of a food contamination or food scandal. In this case the shop owner can't prove the origin of the product and that the contamination does not originated from his/her activity. The presence of the invoice is a very important evidence not only from food safety but also from tax point of view. So the small shop owners have to consider the food safety regulations and fulfil them. (To meet the traceability requirements of the General Food Law EC 178/2002)

The widespread use of retailers' food safety management system standards for the suppliers of own label food products highlighted that there is a need for a more transparent control of maintaining food safety, quality legally along of the entire supply chain e.g. during the logistic activities as well. Therefore an International Food Standard was developed by the German and French retailers in 2006, which was issued under the name of IFS Logistic Standard. This covers the food safety, hygiene, quality management requirements during all logistic activities from the finished product store room of the food manufacturers till the retailer's store, as loading, transportation, off loading, storage handling, and further distribution. The main requirements are the follows:

- Management of quality system which includes the food safety risk management based on the implementation of the HACCP system and the basic requirements of documented systems covering procedures, document control and record keeping.
- Management responsibility regarding management structure, management commitment and management review.
- Resource management requiring to ensure all the necessary resources
- Realization of the service which include control, review, monitoring performance of the suppliers, and specific handling requirements to avoid cross contamination and damage of products.
- Measurement, analysis, improvements which include internal audit, handling customer complaints, product withdrawal and recall procedures, corrective actions and calibration control of measuring and maintaining devices
- Storage and distribution which includes personal hygiene and material handling, temperature control, requirements for the premises, housekeeping and hygiene, pest control, maintenance traceability
- Transport which includes transport packaging, temperature control, transport practices

This standard clearly reflects the need that the distribution operations shall be properly managed and organised to maintain the safety, quality and legality of food. The typical weak points of this part of the supply chains from the technical point of view are the temperature control, the maintenance of lot identify e.g. traceability and the ensurance of proper stock rotation. These are typical everywhere in the world, and not only for the traditional products.

Wholesalers typically operate from a warehouse or office space that isn't designed to attract walk-in customers. Wholesale outlets are often located in industrial areas of cities, where it is convenient for their customers to pick up and load supplies (Metro is the largest in Hungary), or where they have warehouses from which the goods are distributed and delivered directly to their clients.

2.3.4. Resource and information allocation along the distribution chain

The linear bar coding is applied for many years in the supply chain as the simplest method of automatic identification of the product. In Europe the EAN-13. bar code is used widely for the products and it has been applied in Hungary for many years. In order to meet 178/2002 EC regulation for the traceability the EU UCC/EAN-128 bar coding system is recommended to be used. This system is suitable to code more information and ensure that different data for identification of the food as quantity, shelf-life, transportation can be registered in the logistic system. The development of the bar coding system resulted that it is increasingly used by all market players of the supply chain as food manufacturers, logistic service providers, wholesale units. In small shops the use of bar code systems, especially that of the EAN-128 is still very limited. For traceability of beef EAN-128 bar coding system has been introduced what is based on the combination of the identification number of the product with additional information as different process step of the processing or additives used.

In some cases complex bar codes are applied for traceability of the products, which can store and provide more information than the linear bar coding system.

An advanced but currently relatively expensive method is based on the use of the (RFID) Radio Frequency Identification system where the information is stored electronically in a small tag with micro chip and permits an RFID reader to identify the physical objects which have been affixed with an RFID tag. In this case the information of traceability can be forwarded to a computer system and made available on the Internet.

The product information (name of the product, manufacturing and expiry date, batch number, price, ingredients, instruction of use, intended use) have to be transmitted to the consumer through the labelling put on the packaging material. As the products coming from EU countries (or from third countries) are labelled in several languages and sold under the retailer's brand product the manufacturer can't be identified on it. This is a strong indication for the implementation and use of the RFID. The manufacturer can clarify its own responsibility in the case of food scandal, or product recall (see latest food alert caused by dioxin contaminated guar gum additive).

A large number of problems arise related to the imported bulk and unpacked fresh vegetables distributed by the multiple supermarket chains. On these products there is not a labelling visible for the consumer. The necessary information about the origin must be covered by the attached delivery documentation. Since the actual product and the attached documentation is physically separated at the handing in the retailers store, there is a chance for making mistakes and also for deliberate unfair practices misleading the consumer.

Sometimes the origin of these lots can't be identified. Sometimes this gap in the information supply is misused by some market players for unethical business practices to mislead the consumers. The incidents related these products can seriously damage consumer's trust and cause difficulties for the producers of traditional Hungarian products.

The casual contamination of these fresh produce with (pesticide residues) can damage the trust of consumers particularly in that case if the product is popular and traditional in Hungary (e.g. green peppers were highly contaminated with insecticide and the product arrived from North-Africa).

Very often ″ Hungarian product″ or " produced in Hungary ″ marking can be seen on the labels or on the flyers of the foodstuffs, even if because of the season or climatic circumstances it is impossible that these products could be of Hungarian origin. These labels are used to mislead the consumer because they traditionally believed the high quality and safety of local products. To ensure transparency of the activities of the local producers in terms of food safety and quality and to protect their reputation from being compromised by false practises of some market players several growers organizations in Europe introduced the use of voluntary assured/labelled (*premium private label (PPL))* schemes. All of these schemes are based on specifying their requirement which represent Good Agriculture Practice beyond the legal minimum, ensure traceability along the entire food chain from farm to consumers and regularly audit the operation of the businesses participating in the scheme by peers or their partners. Assured labelled PPL schemes can

- Create market power (higher profits, higher market share)
- Secure food safety (General Food Law – Traceability)

The label assigned to these products help to differentiate the agriculture product from the bulk commodities, by adding extra value and introducing a special form of branding. These schemes are not widely used in Hungary yet. There is also a retailer standard (EUREPGAP) for produce based on the transparent implementation of Good Agricultural Practice together with the traceability. The application of this standard is increasing among the growers, especially at those, who supply large food manufacturers or West-European retailers. This system is increasingly applied also by SMEs.

2.3.5. Communication:

The success of the SMEs on the market also depends on the communication with their customers. It is very important how the SMEs address their customers, and can influence their decision. In the future it is very important to improve the communication of the members of the traditional food chain e.g. organizing communication trainings. The measurement of consumer's satisfaction and expectation can improve the communication, but these tools are applied mostly by some medium sized companies. The small ones apply these methods, because of the lack of resources. This IT systems to support business communication related to commercial activities are discussed under the section of e-commerce.

2.3.6. Financial aspects

In Hungary the small and medium sized companies have to survive at the low level of financial support from the government. It is also necessary to mention a very critical weakness of the business culture, the lack of understanding the benefits , thus the lack of willingness of sharing costs, benefits and risks in the agri-food chain. This problem weakens the market position of the SMEs.

To achieve competitive advantage an advanced thinking and strategic approach are required, to cope with the strong pressure of retailers imposed to reduce their own costs by pushing the responsibilities back to the suppliers (e.g. costs of testing, certification, stock keeping etc.). For the food manufacturing SMEs it is necessary to focus on the reduction of the operating costs, together with the reduction of response time to request to speed up the product rotation cycles.

2.4. Marketing management capabilities

2.4.1. Market segmentation

The traditional food manufacturers don't differentiate the markets by demographic, age group, or cultural features. The manufacturers of the organic products segment the market by social benefits, they aim to explore the well-established and more conscious consumers. This differentiation often leads to a premium price, because the consumer is ready to pay a higher price for the real or hoped health value or for any other specific features, what they perceive as an additional benefit. Recently the inspection of the manufacturers of organic products and also their products were tightened recently, focusing on the implementation of plant protection (GAP) and the pesticide residue level in the products.

2.4.2. Distribution

Choice of the right distribution channel, selection of the point of sales.

Direct sales

Direct selling is a chance for the small and medium sized companies to reduce their operating costs because in that case they have no or reduced transport costs.
It is typical mostly in the bakeries where a catering service is added to the manufacturing activity. The clients can buy bakery products and have breakfast in the same place where the bakery products are made. The bakery is working as cafeteria as well. These types bakeries are located usually close to schools or in touristic areas.
In the market or market halls there are special Hungarian fast food service outlets, where traditional Hungarian dishes: grilled sausages, soups like "Goulasch", roasted meat prepared and offered to the clients for in-place consumption or take away (eat- in and/or take away (in Hungarian: „Laci konyha") frequently these are located near the butcher's shop where the traditional products are sold by the butcher and are prepared for consumption. This is a special form of catering.
An other way of direct selling is represented by the different kinds of gastronomy festivals " village days", exhibitions and fairs. These product specific festivals (sausage, plum jam, fish soup, onion, etc.) and village festivals are increasingly used to make wider public aware of traditional products and local recipes. In some regions like North-East of the Great Plain (Szatmár, Bereg) or North of the lake Balaton these events are more and more successful.

The majority of the companies do not apply advertising in the media, especially in the television, radio and national journals and magazines, because they do not have enough money for it. Some companies having small specially shops use the back side of the local maps for advertising. The use of internet for advertising is limited at SMEs, but it is increasing.

Their typical promotion activity is the public relations with the consumers in local markets or in special exhibitions. The disadvantage of this promotion activity is that it is operating at local or regional level only.

Direct sales activities can be developed if manufacturers of the traditional foods participate on festivals organised by other regions, or on other product specific festivals as invited guests. Many of these festivals get financial support from the Agricultural Marketing Board of the Ministry of Agriculture through the Product Councils and sector specific industry associations. The National Wine Festival organised once a year in Budapest by the Wine Culture Foundation is a good example for that, where all wine manufacturers can exhibit their wines and make direct sales to the consumers. A collaboration of the different Product Councils and industry associations can help. Regrettably the amount of funding from the AMC is variable from year to year.

Joint advertising activity

A chance is provided for joint advertising and increasing the export activities of SME's by a potential collaboration with tourist agencies or the Ministry of Economy and Transport, who organise cultural events with festivals, aimed to present Hungary in the neighbouring countries. Here the manufacturers of traditional foods can introduce their products directly to the consumers.

E-commerce

E-commerce is a useful tool to sell the products in wide availability. In Hungary, the electronic commerce is in its infancy, as far as both B2B (business to business) and B2C (business to clients) are concerned.

The use of specific, purpose built information technology systems and solutions, other than the simple traditional use of e-mail and the internet is very limited. Although some of the large retailers have already introduced internet based tendering systems for selecting their suppliers for Central-European or European demands, but similar systems are not used yet in other links of the distribution system. The electronic virtual market system where on line facilities, based on electronic databases are provided for offering stocks, searching for stocks, making deals are not used yet in domestic sales, although these systems are already available for the international market. These systems can save time, travel cost, phone charges and provide their user faster information flow and flexibility through quick screening of several opportunities. The electronic closed access databases and information sharing systems – " internal data platforms "- between the members of a supply chain are not used yet, although several software companies started to offer these solutions. Many small traditional food producers do not use the computers for other purpose as word processing and e-mailing.
Access to the Internet is still relatively low: approximately only 26% percent of households are online, and out of that number only 13% make internet purchases.
Some of the Hungarian traditional food producers, wineries (e.g.: "Bock Pincészet" Dégenfeld Szőlőbirtok" (wine) „ Agárdi pálinka (spirit)"; „Hungarikum shop") have already sell their products on the Internet, but its number is very low yet.
There is a large potential for increasing the efficiency of the supply chain management through enhancing the flow of information by introducing IT solutions for communication.

2.4.3. Availability of selling points (e.g. small specific shops, supermarkets)

In Hungary there are a few specific shops or gift shops located in the touristic areas only, usually close to the main sights, where the traditional foods e.g.: Hungarian goose liver (canned), dried fermented sausages, wines, honey are sold. The specific shops for Hungarian wines are widely spread mostly in the capital and in the large towns.

From the agri-tourism point of view it can be mentioned that the typical traditional Hungarian products like pickled paprika products or acacia honey etc. are sold in the Hungarian local restaurants, “csárda” located in tourist regions e.g. Lake Balaton or “Hortobágy”. Many of these places are located in those villages where horsing events are organised and not near to the road where the tourists pass, and the sales of traditional product is limited to special occasions.

The restaurants also sell different types of traditional dishes made of special Hungarian food ingredients. In Hungary some restaurants located in the neighbourhood of grey cattle herds, mainly in the Hortobágy area, offer tourists traditional Hungarian dishes.

There are also some specific shops, stalls in the larger fresh food markets. Some of the traditional products are sold there as „home made”. In the Great Market Hall in Budapest leading brands and high quality specialities are sold mainly for visitors from abroad. At other places local, many times artisan products are sold. The quality and safety of these later products is variable.

The contribution of these speciality shops to the total sales volume of traditional products of SMEs is low. There are not such dedicated delicatessen shops or specific cheese or butcher’s shops, groceries available , where a wide selection of traditional Hungarian food products is permanently offered for sale for the ordinary Hungarian customers, who are interested in premium quality, speciality foods.

The supermarkets sell the leading brands of traditional food products, but these products are mainly supplied by large and medium sized companies. The micro and small companies do not have a chance to sell their products on this way because they do not have enough capacity to satisfy the large volumes demanded by the hypermarkets.

2.4.4. Labelling

For promotion

Several manufacturers are aware of the importance of typical Hungarian characters as a marketing aid. These are mostly called as “Hungaricum”s (category). Generally they use the Hungarian flag or red-white-green colours on the packaging is to draw the consumers attention to the Hungarian origin of the traditional products. PDO and PGI labelling is not applied yet and the public does not know it. The name of the variety is very rarely indicated when produce is sold either packed or in bulk. There are a few products, which have applications, waiting for approval at the EU level. There are not any well-known regional labels or umbrella brands established yet in Hungary.

Labelling as information-bearing

Some of the companies apply „flyers” where they present the story of the product or the applied technology and the recipe.

Generally in the case of wines a map the place of origin is drawn on the packaging.

If the sausage is made of special “mangalitza” meat there is e.g. a head of “mangalitza” pig on the label. Legally requested mandatory labelling is applied on all the products sold packed.

Since the perception of traditional products is usually associated with high sugar, fat, salt and energy content, thus they are seen as being in conflict with the increasing demand for healthy diet. They can largely benefit from the new format of GDA labelling. The GDA labelling provides information to the consumers on the nutritional content of a portion of a specific food, thus making significantly easier to fit in tasty, traditional products into a balanced, health consider diet. The use of the GDA labelling has stared in Hungary in the recent months.

Convenience

Some companies focusing on consumer's convenience use tie-in sale to sell their products. For example the Hungarian national beef stew "marha pörkölt" has two main ingredients beside the beef meat: Hungarian red wine and red paprika, so the producers co-operate and sell their product together in tie-in sale. There are not specific home delivery services for traditional products. At the meat and dairy products modified atmosphere packaging is used to extend shelf-life. Some product marketing organisation apply sorting and packing of traditional produce, but it is limited to a few organisations and a few products.

2.5. Innovation in distribution chain

Although the manufacturers and producers, especially SMEs have relatively limited resources for testing new innovative methods the rapid development of the ICT solutions is reducing the costs of these solutions and many service providers started to test and introduce these methods to achieve reduction of costs in their activities.
The majority of the distribution service providers use electronic software for optimal route planning, which can result in the reduction of costs of collecting goods from several small manufacturers.
The use of GPS systems has been started by logistic suppliers having larger fleets. This technology will help the tracking and tracing of the movement of vehicles and goods.

2.5.1. Potential use of RFID technology

(Lee H. et al. Global: Assessing the Value of EPC/RFID Technology and EPC global Standards for Consumer Products Manufacturers EPC Global 2005)

Radio Frequency Identification (RFID) is a technology that permits an RFID reader to identify physical objects that have been affixed with a transponder or RFID tag. A suite of standards has emerged called the EPCglobal Network TM, which enable low-cost RFID tagging and ubiquitous visibility in the supply chain.

EPC/RFID technology enables three fundamental new functions that bar codes did not permit. First, RFID tags, unlike bar codes, can be read without manual intervention or line-of-sight. Second, EPC tag contains not only the SKU number that bar codes capture, but also a unique serial number. Third, because the EPCglobal Network leverages the Internet, it enables rapid information sharing and communication of inventory. As a result of these three features, the EPCglobal Network has the potential to fundamentally change the way the supply chain operates. The visibility that EPC/RFID provides into the supply chain has been seen as a fundamental tool in long-standing efforts to reduce safety stock, increase service-levels, enhance accountability of partners, and combat brand problems in the supply chain.

<u>Problems in the food supply chain</u>
The following business issues, causing problems in the food supply chain, including the traditional foods can potentially be reduced through EPC/RFID implementation: out-of-stocks

(OOS) (both that the manufacturer and retail levels), shrinkage, product diversion, counterfeiting, reconciliation/deductions, and obsolescence.

Out-of-stock

We define an out-of stock occurrence to take place whenever a customer demand cannot be met immediately. The RFID technology can reduce out of stock incidents through reducing forecasting errors, improving the reliabilities of deliveries, reducing inaccuracies in inventory management systems and reducing physical inventory placement problems.

Shrinkage

Shrinkage is a loss of product in the distribution chain.
More shrinkage may occur beyond the manufacturers' premises. Theft, both internal and external (burglary, within one of the manufacturer's facilities or along the distribution network), is a major cause of shrinkage. Shrinkage may also occur due to process failures, such as when items are lost while in distribution or when items are delivered to the wrong location.

The RFID technology can provide real time alert of mismatching of incoming and outgoing items, and real time tracking.

Product Diversion

Product diversion is an undesired proactive re-routing of goods by third-parties to arbitrage price differences across national boundaries and across sales channels by short-circuiting the supply chain. That is, diversion takes place when products intended by the manufacturer to be sold in one location end up being offered for sale (by a third party) in a different location – a location characterized by a higher price tag compared to the selling price of the product in the original target market. Diversion effectively transfers profit margins from the manufacturer's books to those of the diverter.

EPC/RFID technology can provide manufacturers with real-time visibility to product location while in distribution. With visibility to the actual distribution route, it is easier for the manufacturer to detect the time and location where the products were diverted, and to take steps to eliminate such instances from happening again.

Counterfeiting

Counterfeiting can take place within the supply chain in multiple forms as distributing fake products, diluted products, or outdated products. EPC/RFID technology helps detect and mitigate the problem of counterfeiting since the very presence of an EPC tag is a hurdle to a counterfeiter. The Electronic Product Code TM (EPC) enables the detection of "fraudulent" numbers from their abrupt introduction into the supply chain, in places where they should not appear. At the same time, the distribution of outdated products, even if they include the original EPC tag, will become more challenging, since the EPC tag could reveal the true expiration date of the products.

Reconciliation/Deductions

Whenever there are differences between the shipment received by a retailer and the order placed with the manufacturer, it triggers a reconciliation process. There can be multiple reasons for such differences, including process failures at the manufacturer site that lead to shipment of the wrong quantity or wrong product; damage to the delivered items while in distribution; theft while the goods are in transit, which result in the retailer receiving a smaller quantity than the one shipped by the manufacturer; or price issues. The manufacturer will most likely need to compensate the retailer for these errors. In addition, the retailer's payment may be delayed until an agreement is reached.

The use of EPC/RFID technology during the order picking and packing process can eliminate process errors that result in shipment of the wrong products, the wrong quantities and/or the wrong packaging. In addition, shrinkage can be more easily detected and prevented. Sensors can be used to monitor the actual temperature in the trucks and to alert whenever it gets out of the allowed limits.

Obsolescence

Food products are perishable and will become obsolete when and if they exceed their specified shelf life. Any obsolescence results in net loss to the manufacturer, who already incurred the production and inventory holding costs and must now discard the products without realizing any profit. In addition, obsolescence may also lead to out-of stocks at the retail stores, which may impact the manufacturer's market share, profitability, and service level provided to consumers. EPC/RFID technology can reduce product obsolescence by giving more visibility into such information as product expiration date, product location and actual sales level.

Business Drivers

There are five business drivers as capabilities that manufacturers can potentially enhance through EPC/RFID implementation. These are production planning, vendor-managed-inventory/direct-store-delivery, promotions management, operational efficiency and track and trace capabilities.

Production Planning

Production planning is based on multiple pieces of information, including demand forecast and actual demand realization, availability of raw materials and production capacity, current inventory levels along the supply chain and previous backlog. The accuracy of the production plan depends on the accuracy of each of these inputs.

Vendor-Managed-Inventory/Direct-Store-Delivery

Vendor-managed-inventory (VMI) is a replenishment process by which the supplier takes responsibility for maintaining the inventory at customer sites (usually at their distribution centres). With direct-store-delivery (DSD) the manufacturer is in charge of replenishing shelf inventory at the retail stores. With EPC/RFID, the manufacturer is more likely to obtain desired inventory and sales information in a timely manner.

Promotion Management

Promotions are used widely among companies to increase awareness of their products and generate additional revenue. Companies spend significant amount of money on promotions, but they have very limited overview about the efficiency of their promotional spending.

With EPC/RFID technology, manufacturers can get timely and accurate information of product location within their supply chains. This information can be used to redistribute inventories, as needed, to better meet demand at the retail store and to minimize out-of-stocks during the promotion period. At the same time, accurate sales information at the retail stores can help manufacturers measure the effectiveness of their promotional efforts. This information can be used to better plan future promotional campaigns.

Operational Efficiency

Manual scanning makes business operations very inefficient. A number of employees must be hired to manually scan product bar codes. Such manual scanning is not only very time consuming, but also prone to errors.

Automatic scanning of incoming material, outgoing goods and WIP or products in transfer, which can take place once EPC/RFID technology is implemented, can play a significant role in improving operational efficiency.
Thus the use of RFID can provide the following benefits: reduction in inventory levels, out-of-stock reduction – manufacturer, out-of-stock reduction – sales, shrinkage reduction, reduction in product diversion, reduction in counterfeiting, reduction in deductions, obsolescence reduction, improved production planning, improved VMI/DSD, improved promotions management, improved tracking & tracing, improved operational efficiency, adjustments for double counting.

Stock management and traceability

Several ITC based innovative technical solutions are associated with stock management and traceability. The RFID technology is expected to replace the bar coding system and partially replace the identification label of goods. It is applied in the identification system of goods and an increasing number of logistic service providers try to implement it in its own system instead of the bar coding. It is advantageous because it improves the reliability of the logistic system and reduces the staff-costs in the stores and warehouses and reduces the time of making inventory. It ensures the real time traceability and increases the protection and reliability of tracking of the movement of goods. RFIS tags expected to be used on whole containers and on multiple of packs retail products. The technology is relatively expensive yet; therefore experimental trials are carried out only.

Thus the use of RFID can provide the following benefits: reduction in inventory levels, out-of-stock reduction - manufacturer, out-of-stock reduction - sales, shrinkage reduction, reduction in product diversion, reduction in counterfeiting, reduction in deductions, obsolence reduction, improved production planning, improved VMI/DSD, improved promotions management, improved tracking & tracing, improved operational efficiency, adjustment for double counting.

2.5.2. Value added

In the direct sales and at the sales via manufacturer and/or retailer the following solutions are established to increase the value added:

2.5.2.1. Direct sales

- Food manufacturing SME's can transport their products directly to the customers implementing a delivery service or collaborating with a delivery service provider.
- On the market the fresh vegetables for cooking traditional Hungarian meat soup (carrot, turnip) are peeled, cut and packed in plastic pouch by the grower. Ready to bake or pre-baked traditional bakery products are prepared in bakery plants and delivered to small outlets in underground stations and on the street. These outlets are equipped with frozen storage cabinets and high performance air circulated ovens. They use the "bake off" technology to sell those products, (freshly baked scones, cakes with different fillings) directly to the consumers.

2.5.2.2. Trade – wholesale markets

Electronic databases for tracking without movement of goods before it was sold to the ultimate customer have not been applied yet.

2.5.2.3. In sales via manufacturer and/or retailer

- quality bottled wines with good vintage are aged and sold after storage.
- slicing of cheese or fresh meat and packaging in plastic tray in the hypermarket.
- some retailers opened speciality corners for traditional pickles in their store.

2.6. Conclusions, suggestions

The main distribution problems in traditional food supply chains in Hungary are the followings:

Distribution channels:

- Lack of experience of the traditional food manufacturers in using alternative distribution channels, specifically those which ensure direct sales to consumers, or direct access to small shops and the catering sector;
- Limited availability of delicatessen shops and specialised premium quality food shops;
- Lack of specialised intermediaries for traditional foods;
- Inefficient use of sales outlets connected to the tourism for creating awareness of traditional food products;

New techniques:

- Lack of awareness of available IT solutions as databases, closed platforms and limited use of them;
- Low use of e-commerce;

Unfair trade practices, misusing the weaknesses in traceability and misleading the consumer and damaging the reputation of traditional products;

High and increasing power of retailers:

- Imposing the use of centralised logistic systems on the suppliers which may be expensive for small businesses;
- Increasing certification requirements, which may be expensive;
- Seizing some of the direct distribution channels (like in-store bakeries, butcheries, confectionaries)

Reluctance to use collective cost sharing activities to reduce high costs related to distribution

It can be concluded that in Hungary because of the lack of capital of the SME's and their small production capacity it is reasonable to develop the alternative distribution channels as the direct sale, with improvement of the marketing management capabilities such as advertising and promotional approach with innovative methods. Concerning the supply chain management it is recommended to apply the cost sharing activities in logistic e.g.: collaboration of several manufacturers in the same area to use the same logistic or transportation service provider, establishing a joint sales organization, which can afford to buy and operate transport vehicles for delivering several traditional products jointly (micro and small businesses e.g.: dried sausage manufacturers and picklers together) to the local or regional markets. Home delivery services from local and regional markets can be introduced to improve the availability of traditional products.

For the medium sized companies the RFID technology can improve the efficiency of the stock management and reduce cost, when the price of the electronic tags will be reduced significantly. On longer term the RFID can bring benefits in reduction inventory levels, out-of-stock reduction - manufacturer, out-of-stock reduction - sales, shrinkage reduction, reduction in product diversion, reduction in counterfeiting, reduction in deductions, obsolence reduction, improved production planning, improved VMI/DSD, improved promotions management, improved tracking & tracing, improved operational efficiency, adjustment for double counting.

The collaboration of the small and medium sized trade companies, their integration to purchasing companies is very limited.

Organisation of national festivals to advertise other traditional products besides wine such as pickled paprika products, dried fermented sausages can also improve the availability of traditional products in distant markets.

It is recommended that the traditional food manufacturers collaborate with the restaurant owners in village tourism and sell their traditional products such as pickles, acacia honey, etc. on the local or regional level in as many restaurants as possible in the vicinity of those areas which are visited by tourists.

For financing television advertising activities it can be a solution if the traditional food manufacturers manufacturing different products characterizing a given Hungarian region could establish an association for advertising or the Food Federations/Product Council, organize collective advertising activities by product types.
Developing e-commerce, opening a web site by small or medium sized food manufacturers can provide a new way of direct sales.

3. Italian report

3.1. Distribution, marketing, and the firm life cycle

Distribution problems (DPs) are clearly part of a dynamic process occurring at the right wing extreme of the Food SC. This part of the chain is where the whole SC ends up, manifesting the real strength, in relative terms, of the chain itself. It is therefore a turning point of the studied system, because the distributive side of the chain *is the point* in which the various strategies of the single members of the SC are reflected with their strengths and weaknesses, and where the bargaining power of each contributor to the chain comes out.

For these reasons it is essential to characterise the analysis of DPs in terms of fundamental component of the marketing intelligence of the chain members. DPs are to be considered an essential part of the marketing strategy of the SC members. In fact if we interpret distribution as the function that makes a given product available to its demand through a network of actions and structures finalised at making the choice of the product highly possible to the potential customers, we are at the very core of the marketing behaviour of an economic agent.

Distribution and its cognate notion of "channel" are evidently very important priorities of any manufacturer because distribution is often the passage where the will and the intentionality of the manufacturing agent should come to terms with the will and the intentionality of other members of the Food SC. Hence distribution has a lot to say about the presence (absence) of a marketing strategy by the manufacturer. There are at least two reasons explaining the key role of DPs with regard to distribution:

> 1. final consumer makes most of choice at the Point of Sale (POS): even if they might want a certain class of products (e.g. a kind of cheese) they will be dependent on what actually on shelves (in the case of TF the consumer does not postpone purchase to go to another POS); this means that advertising to final consumer, if not in the huge dimensions typical of national brands, risk to be ineffective if not matched with good relations with distribution channels;
>
> 2. by changing the target channel (e.g. by switching from shops to supermarkets) the company has to cope with the distributive dimension positing a major evolution step in its development phase.

It is hence reasonable to reconsider the importance of marketing strategies for the food manufacturing companies, especially SMEs, which are at the centre of our interests in DPs.

"Marketing" is a word with a very wide semantic extension; it can capture an ample variety of meanings, not only in terms of activities but also in terms of overall strategy and its formalisation. Each company has a marketing approach, even if largely unidentifiable under the specific traits of "marketing doctrine" or "marketing manuals".

In particular, this is typical of the SMEs approach to the market that is constrained by two conditions:

1) the scarce (or even absent) formalization in terms of a Marketing Plan (goals, strategy, procedures, responsibilities)

2) the guiding role of the "market instinct" of the higher officer in the company.

At SMEs level this action is very often performed by the entrepreneur itself or by a person that has it full confidence. These two conditions, (absence of marketing formalized programmes/procedures and singularity, i.e. full conferral of the go to market imperatives to one person) are frequent traits in the so-called "implicit marketing strategy" of the company.

It is not surprising that these phenomena are particularly present in the SMEs, which has a minor propensity to invest formally in a strategy, as normally defined by strategic doctrine. The entrepreneur and its collaborators (often the same members of its family plus a number of contributors that benefit the confidence of the entrepreneur him/herself), ground their behaviour on specific routines, which in turn are the result of personal experience, empirical reaction of adaptation to the wants of the market, detailed – practical - knowledge of the main operative constraints of the entrepreneurial and economic environment (Nelson and Winter, 1982; Becker, 2002). This leads inevitably to a dominance (and sometimes prevalence) of the instinctual vision of the man in touch with the market, what risks to confine the strategic approach of the company on the mere personal vision. This can be rewarding (even for a long time), but it cannot be a substitute for a more articulated investigation of the market opportunities of the firm.

In other terms, the fact that the strategy is not formalised does not mean a strategy does not exist or that decision of strategic relevance are not taken. It means that the strategy is embedded in a person, to the effect that to change the strategy it is necessary to change the person (or his vision).

It's not only firm dimension that matters: also the socio-political climate and institution can influence the degree of tacitness of the strategy: in Southern Europe, as Italy and Spain, there is a particularly positive appreciation of informal procedure, somewhat in contrast with the culture of France and Belgium and the Nordic countries like Norway[1].

The "dictatorship" of the company market guru has as a consequence also the progressive subtraction of interest in marketing improvements at the level of other company members. New at creative ideas, approaches generated within younger company collaborators that could invigorate the strategic navigation of the firm are rarely taken into consideration; new risk profile are clearly judged improper and the company will maintain, if lucky enough, its traditional strategic attitude to the market.

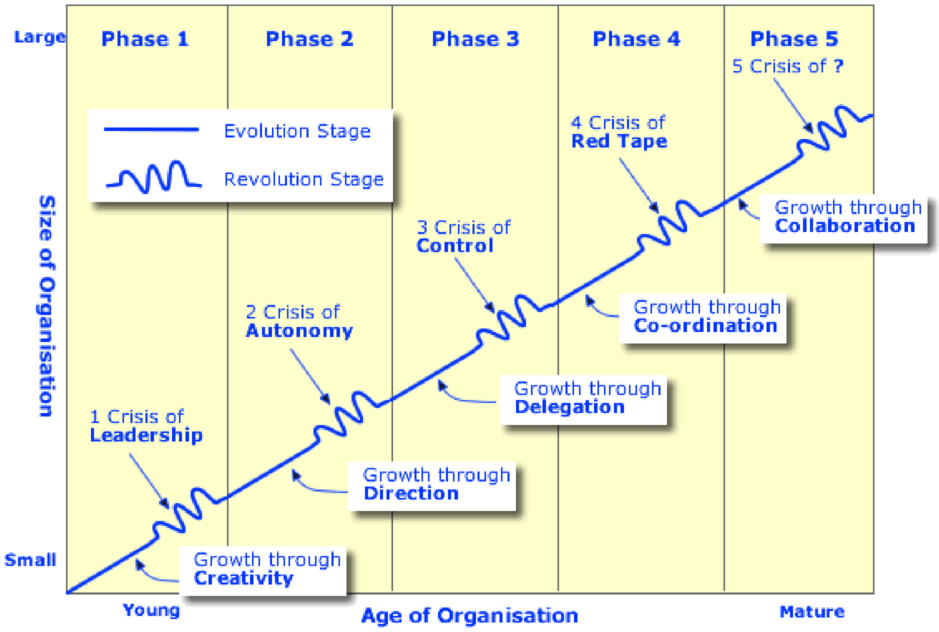
When the company faces a major redefinition of the operative conditions of its activity (either as a result of a change in the market or as the product of a market/product crisis triggered by sudden and unexpected improvements of the competitors), it comes to the open the importance of a selective attitude of the marketing approach, i.e. the necessity of grounding the marketing activities on something different and more articulated than the market instinct of the leading figure of the firm.

For these reasons it has become customary to associate the marketing dimension of the firm as a key indicator of its strategic life cycle. To put in easy words, it is like "if you want to understand

[1] For a text about the cultural differences in capitalism see Turner and Trompenaars (1995).

the state and age of a company, investigate its marketing function" (Mattiacci, Ceccotti, 2005, our translation from Italian language).

As Greiner outlined in his seminal work of 1972, small firms grow alternating phases of normal expansion and organisational crises:



TF producers are often in Phase Two, with a certain growth (or a constant stable level) through the strong hand of one person centralising everything. The changes asked for by retailers tend to pressure the organisation into the Crisis of Autonomy, and many TF refuse to do so.

These kinds of problems are a good example of the fact that companies – especially if small, local and traditional - face in connection with their distributive strategy a major strategic redeployment of their marketing capabilities. Distribution problems are hence a good proxy of the kind of decisions and reorientation typical of the dynamics towards more complexity and more awareness of a firm.

Mattiacci-Ceccotti (2005) contains a very well motivated analysis of the type of strategic reorientation that Distribution Problems pose to marketing and vice-versa for an Italian based food company operating as a local brand in the field of baked biscuits.

The quoted company (referred to with the plume name of *la Biscotteria*) was a typical local biscuit producer operating in Rome with a family ownership and management. Their market was characterised by a strong brand image and awareness, a large proportion of selling in the metropolitan area of Rome and a not irrelevant but somehow more indistinct presence in region Lazio and, sparsely, also in central Italy. The product was practically absent in the rest of the country and abroad. The firm had a single factory in central Rome and a static turnover – judged as "correct" by firm people in the light of the positioning of the company in the market. The leading product was confined to "breakfast biscuits". Its national ranking in terms of global turnover sees *La Biscotteria* with slightly less of the 1% of the total market (ranking 18th in the company list). Price positioning sees the product in medium price range. Although no customer satisfaction procedure was in force, company officials declared that customers attribute a positive evaluation of the product also in terms of willingness to pay.

The product was distributed mostly through the following channels: Modern Distribution 64% divided between large surfaces (25%) and 39% smaller surfaces, while the normal trade (shops) accounted for 30%; wholesalers bought buy and resell about 2.5% of the products.

From the point of view of the organization, the firm showed for a long no sign of formally defined functional roles, apart the responsibilities linked to the production line as such. This was specifically true for formalised decision-making, like the definition of marketing plans, identification of the expected results for the coming years, planning of the trading channels and more generally all those actions associated with the expansion of the market.

Facing expansion can be a red light occasion for many companies like *la Biscotteria*; expansion plans come in the strategic horizons of firms, paradoxically, in connection with the sudden understanding of a lack of tools to face the complexities and uncertainties of a new situation. Changes in small firms, even if consolidated ones, come typically when the new paths are open. The potential contained in a new vision of the market shows, quite rapturously, the unpreparedness of the internal structures and skills of the company officers.

Among the most studied (and empirically tested) effects determining this conundrum are the following factors:

- Realization at various level of the management activities of a systematic lack of information about the evolving markets;
- an insufficient internal reporting system accounting for the state of selling, and the positions of the most important clients;
- the absence of a monitoring activity regarding the type of relations linking the manufacturing company to the trade channels;
- banal, old, untutored opinions about the consumers trends in the specific market served by the company;
- banal, old, untutored information about the current strategies of the most important competitors in the relevant markets;
- flaws in the adopted market segmentation: the company and its main officers operate on the basis of convinctions representing situations already overcome by the market;
- a barrier effect in the competitive positioning of the most important products of the company. This depends on rigidity by the management in interpreting their product portfolio as substantially adapted to the fluctuations of the markets and the desires of the consumers. Unfortunately, the firm management do not really posses a clear view of the impact of their product on the customers.

This situation is reflected in many TF producers whose company history has been dominated both by a success story of the family company and by the reiterated success of the product portfolio. Entrepreneurs and managers are frequently prey of a trap: they judge that their strategies can be substantially confirmed because there is an aura of traditionality and a perception of “old style flavour” in the products they do. This treasure coming directly out of the tradition is a richness that can be eroded, even if slowly. When company people understand this effect it can be too late.

A typical indicator of this effect is the stagnation of the market: not a sudden decrease but a slow decline, specifically in certain areas of the product portfolio. Signs of decline can always be tamed by considering them aspects of an adaptation; but it can be the verge of a sudden reorientation of the taste of the consumers and trigger a major crisis in the specific industry. Product innovation, a decisive move to contrast this kind of stagnation or crisis is the obvious response. But companies like the investigated *Biscotteria* can have difficulties in providing a change into this direction in absence of more calibrated instruments to read the market and the expectations of the consumers.

Here is where distribution comes into the framework. Distribution choices are obviously related to the general product positioning of the firm. Factory and distribution should go hand in hand. Sometimes there is the illusion according to which a renewal of the distributive blend can foster problems in the area of product design. Another possibility has to do with another illusion that exploring new channels is a way to create a salutary “shock”. But often his shock can be more destructive than positive.

For these reasons small or medium companies facing their real first rethinking occasion of their life cycle, start adopting management techniques and expertise in line with a scientific approach. Such a passage may cause important rescheduling in the company priorities, for instance with respect to the ways company officers organize and share their responsibilities. In the case of *La Biscotteria,* a full functional analysis of the relations internal to the firm is realized with the help of specialized consultants. As expected it comes out that the firm needed a more professional, de-personalized configuration of its marketing facilities, starting from the top of the firm. Another important aspect had to do with reshaping the dialogue among product units and commercial ones. A less trivial approach to the requirement needed to realize a new competitive product. This resulted in a programme based on a combination of initiatives:

- first, it was decide to study and adopt an information system for the critical management from the market. New formats for housing and interpreting market data and or forecasting the productive effort were put into force.
- new units dedicated to specific tasks linking the productive dimension with the consumer expectations were initiated. They covered themes like: product design, intrinsic and extrinsic features of the product, packaging requirements and improvements, etc
- a fully new approach to the topic of workforce and human resource was also started. The predominance of a family based recruitment procedure was recognized to be a burden for the firm. Motivated, young managers bringing a fresh view in the company were traditionally expelled after a short period: too high was the pressure of the traditional and informal habits of the family management;
- a rethinking about how to better cope with retailers’ requirements took place.

The result was a somehow challenging but rewarding rethinking of the firm from its very roots. Among the most important results it must be remembered the progressive adoption of a multi-channel approach to distribution that allowed to improve the market performance of the firm in segments and places were sales and margins were originally negligible.

3.2. Distribution role and dimensions: the challenges for Traditional Food Supply Chains

Distribution is technically the stage of a supply market chains in which food products can reach the customers, i.e. a phase which clearly stands at the right hand wing of the SC as such. It would be naive to consider it a simply a point of contact with the final user. In reality how a distributive channel (or more often series of channels) performs with regard to a given class of products depend strongly on a number of complex factors with come well before defining the technical aspects of the distributive component of the SC. Moreover, it is quite frequent that the specific problems and factors constraining the distributive dimension of the chains are frequently the strongest of the whole chain. Thus distribution enters the very core of the trade and commercial strategies of a great number of food products; it determines the economic convenience of many members of the SC, specifically food manufacturers and touches operational phase of the chain which are conceptually far from the manufacturing culture of producers.

Distribution is also a major source of important conditions for conveying certain products to the market; by determining the composition in terms of channels and space coverage of a certain class of products, plays a major role in channelling certain messages and values to the consumers. The role of distributive companies (and networks) is in fact important in deciding which product should be given priority or preference by means, for example, of dedicated promotions and special offers for the customers. In reality all the food economy has been, in the last decades, influenced by and obliged to come to terms with the strategies and the priorities of the large Modern Distributions actors. Conversely, the presence of the Modern Distribution in determining new market opportunities for the whole system of food production, including local and highly specific food productions, has been in large extents beneficial to the whole food economy and to food producers in particular.

Besides, the distribution system should not be treated as a mere conflict between distribution giants and small manufacturers in desperate search of a place to show and advertise their products. Many examples, notably in the field of traditional food productions, show that an important portion of the market, (and occasionally a very important one, for instance fresh foodstuffs and bio-productions) can gain a substantial increase in their marketing strategies from balanced agreements with the distributive companies (and more generally form a conscious distributive sensitive marketing strategy).

Therefore in this part of the text a quick description and evaluation of the main organized channels of distribution is given together with a first link with the specific problem of distributive marketing strategies for TF producers.

Once the problem of a food safety and the capacity of a food producers is such that it is a position to market its product, distribution problems are at the top of food manufacturers worries.

Either distribution is directly assured (and hence managed) by the manufacturer company itself, or is guaranteed through the service of distribution companies responsible for conferring the lots of manufactured products to the markets by means of a differentiation and channel strategies aimed at making the product accessible to the largest possible quantity of clients, in line with the envisaged market segmentation. A mixture of the two is also possible. For instance, many important local food producers have their own distribution facilities (and even chain at local level but use extensively the services of specialized distribution companies for exporting the product abroad. Manufacturers can have a very complex type of relation and agreement with the system of distribution. Sometimes it negotiates directly with distributive companies sometimes do not. The distribution part of the SC can be very complex and articulated. Descriptions tend also to be different when the system is explained by the food manufacturer or the distributive company. Although situations many be very different in details, some general constraints come out of the experience and can be summarized as follows:

- there is first a dimension that is linked to the *length* of the distribution relations and operative condition of a given SC. Length is in turn dependent on circumstances that are frequently spatial, in the sense that the spatial coverage (small or large) of a SC is a major influent about the form and the organizational composition of the Distributive chain. In particular, distributive SCs are described as *long* or *short*.
    - longer DSCs are dominated by the intermediating role of a number of actors. The "distance" between manufacturers and consumers can be measured by the transactions occurring in between; price determination and margins of each component vary according to the nature of the product, the bargaining power of the actors and other components;
    - short DSCs involve a higher rate of "directedness" in the relation between the manufacturer and its distributive resources. This may include whether the capacity of the industrial extends to a major influence on the consumer (in terms of branding, product communication, ability to reinforce the memory of the product etc.);

- depending whether the DSC is long or short, they can be more or less specialized. If a given product has certain features that are perceived as distant form conventional food production and distribution there is room for organizing maybe a *specific niche* in which the distributive strategy can play a beneficial role in determining the success of a minor specific production with strong limits of access to the market. In many similar cases, there is the possibility of developing either a *specialized retail market* or a specialized *wholesale* or both.

- when the Modern distribution is the principal channel for conveying a given product, it is practically certain that several forms of integration in the chain are needed. Big quantities are the rule and the mature of the product is not anymore that of typical small producers of TF.

In the light of these considerations, it comes out that TF producers have an increasing interest in building a clearly designed strategy towards distribution. Absence of even a sketch of strategy would put TF producers either with but occasional distribution opportunities or lagging behind in the area of marginal markets. Here is where the lessons described at the end of the preceding paragraph emerge. In fact, as frequently mentioned, the nature and the organization of a distributive channel system is the culminating point of conditions and actions put forward by SC members in the previous stage of the chain itself. The final configuration of it, in other words, is connected by a series of facts, partly defined by the competitive environment but partly dependent on the desires and expectations of the members of the DSC. It is thus in the strategic basket of each member to decide how to set up the decisive moves apt to influence the behaviour of "brothers-in-chain".

TF manufacturers in particular must consider several points carefully. First, they have to address their chain member colleagues with proposals that make their role prestigious in the DSC. This can be achieved by means of a different strategies or mixture of strategies. Secondly they should try to steer the evolution of the DSC so that the manufacturing component and the mere distributive one have always mutual interests. This requires a building of alliances in the DSC. Alliances are a response to the challenges of continually evolving market. Thirdly TF producers should be inclined to represent overtly their own cases directly to the final consumers. If food manufacturers are in position to defend directly their approach (quality of the production, features of it, interest for specific, even if not very compatible with distribution strategies, manufacturing process, standards and techniques) in the eyes of the final customers, the distributive part of the chain will have to take into account the needs and expectations of important classes of consumers. Here are some points that can help to recapitulate these concepts:

- a typical effective manufacturing strategy is the one of *aggregation*. TF producers bringing common or similar interests can have in the aggregative behaviour various options to empower their own critical mass. There are several different forms (even legally defined) that aggregation strategies can have; the important issue is that manufacturers can talk the same language and be in a position to explain their differentiating philosophy to the – usually bigger distribution firms. The main advantage of this approach is, economically, the possibility of dividing the risk among a larger number of subjects. Even the distribution companies are sensitive to this. Large organized systems of TF manufacturers can discuss with the distribution companies actions aimed at minimising risk with mutual interest of the two parties;
- on the other hand an alternative attitude manifested by TF manufacturers can be the search for a *selective* approach to the market. By this we mean an approach based on firms capable of showing their real distinctiveness, compared with the average, possibly already good quality. This strategy can be successfully looked after by companies that want their exclusive niche to be represented to the consumers. The distribution system, including some parts of MD can be sensitive to this approach and set up specialised channels within their selling segmentation.

The mass, the type and diffusion of the product and the reputation of the actors involved are all critical aspects that can address the manufacturer strategy in one direction or another. In general it is decisive, in order to have an interesting range of choices in the commercial trait of the product placement, that TF manufactures can guarantee a high level of credibility in their approach to the distributive strategy. This credibility is not only restricted to the mere technical and food safety/quality characteristics of the products, but extend to include organizational aspects of the SC. There is a lot that distribution companies can learn from TF manufacturers, particularly if producers are capable to set up technical supports to steer their actions. Bigger organized producers association can guarantee internally services to the firms, helping them to protect their orientation to traditional food productions. Besides, these cooperative forms can free resources for common use and further specialisation in different directions. In this respect two major offspring of the aggregative strategies of manufacturers can be the underlined:

- the realization of synergies to associate more *technological research and technology transfer* into the companies - SMEs in particular - operating in this market segment;

- the progressive creation of certification facilities helping the companies in this segment to convey to the distribution and to the consumers the credibility of controls an quality standards;
- the creation of a *favourable reputation climate, by* investing into alliances with local authorities and other subjects with public responsibilities in the position of *ambassadors* of the quality of a region or specific *terroir*. Inclusion of the local food excellence in the promotion of the touristic packages is a good example of active policies that producers and distribution companies should take into account to empower the external branding of a number of TF products.

At a higher level it must be remembered the role of *Production Consortia*, i.e. second level organizations constituted by food manufacturers to develop specific activities and tasks within the food SC in the interests of the companies belonging to the consortium. A well know example in Italy of this typology is the one of *export consortia*, which are not restricted to the food and beverages sector. They are institutions aimed at solving a number of problems for the served firms, specifically to explore in a coherent an time consuming way, market opportunities for SMEs abroad. Consortia play often an important role in situation in which the aggregative strategy is the chosen one. The consortia can indeed provide to the served firms services and competences that can contribute to raise the bargaining power of producers towards the distributive companies.

3.3. Retailing formats: risks and opportunities for producers of Traditional Food

The manufacturing and the retailing company pursue distinctive and separate interest, although many concepts involved in the discussion above, show that there is an important layer of strategic overlapping in the behaviours of the two subjects.

Competition in the retailing system both among distribution formats and within formats is challenging the TF producers. An overview of main retailing formats where traditional food is currently available is presented in the following table:

Table 2 - Retailing formats

Format	***Explanation***	***Subformats***	***Challenges and opportunities for TF producers***
Shop	Less than 100 sqm, presence of serving people to	Traditional grocery shop	The number of shops is sharply decreasing, with total market shares in grocery down from 40% in 1994 to 20% in 2005[2].

[2] Source: Federdistribuzione, 2007.

	provide aid to consumer	Small grocery stores that mainly sell fruits and vegetables	Faced with increased competition with other formats, the new wave of regulatory liberalisation in Italy strengthens the possibility of diversification and the launch of new versions of shops. TF producer might reinforce the alliances with specialised food boutiques, who however have sales difficulties[3]. City centre shops ("High Street") are increasingly developing collective overarching marketing strategies.
		Food-related craftsmanship store (e.g. butcher, bakery)	
		Specialised food boutique	
		Flagship store	
Supermarket	100 sqm-4000 sqm; free consumer service; cashiers	Grocery-oriented supermarket	The purchases are usually centralised purchase, with tough negotiations and strong pressure on costs. However, one should remark a new positive attention to regional food.
		Superette	
		Neighbourhood supermarket	
Hypermarkets	More than 4000 sqm. The widest choice of grocery and non-grocery categories. Variety of brands and sizes. Intensive use of promotion,	The largest hypermarkets (giants)	TF will not be absent from such a vast supply. However the entry level (in terms of quantity / requirements) can be too high for the single producer.
		Medium-size hypermarkets	

[3] For instance, in 2006 the 7.8% of PDO/PGI Italian cheeses were sold through specialised shops (for a value of 4.6 mld euro), down 14% in comparison to 2005. For industrial cheeses, the respective numbers are a share of 3.9% of specialised shops (3.9 mld Euro), down 4.1%. Source: ISMEA, 2006.

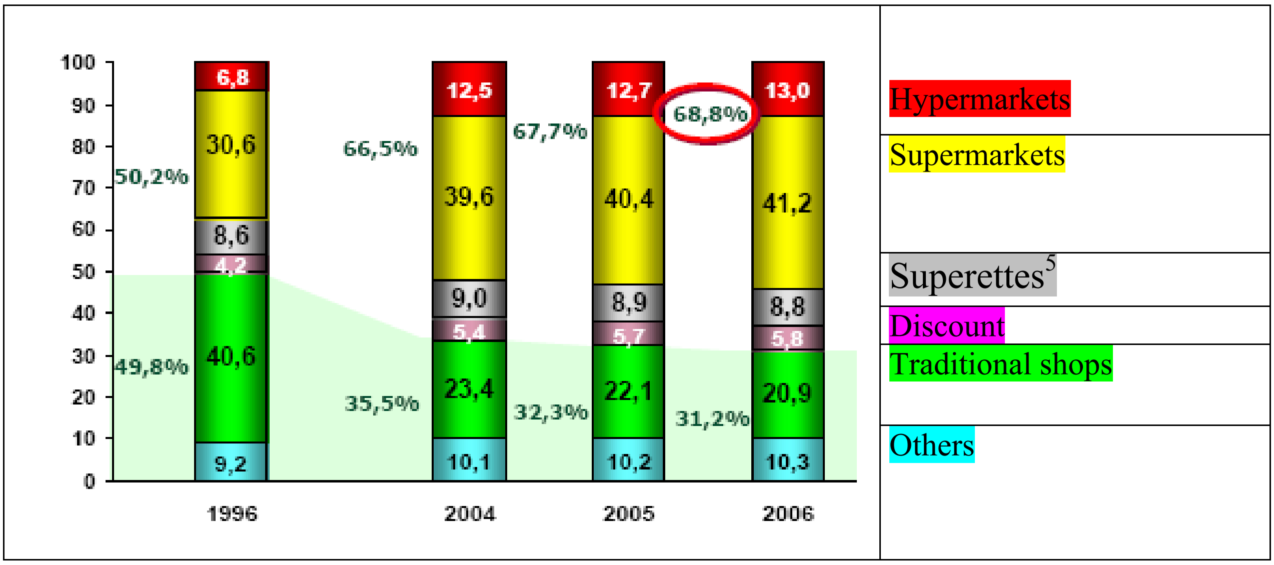
	high/low price alternation in categories over time, wide geographical market coverage	Lower-size hypermarkets	
Discount	Low-cost concept. No size and brand choice for each product category. High rotation of inventories.	Hard discount	Discounters keep typically only one brand (with one item in one size) for each category they consider be relevant for weekly purchases. This represents a difficulty for traditional foods that not neatly fit into this definition. The single producer will never be present with its own brand, thus certain (weaker) consortia of TF might be considering the case of involving discounters.
		Soft discount	

This simplified scheme should be complemented by taking into account the equity linkage among different actors and by splitting the multiples (super- & hyper-market chains) in two sub-groups:

- the "Grande Distribuzione" (Large distribution), which owns all its subsidiaries and big-box point of sales;
- the "Grande Distribuzione Organizzata" (Large organised distribution) in which a plethora of firms, having or not an equity link among them, do centralise purchases and some brands.

Indeed the "purchasing group" are often the real interface of TF manufacturer more than the single end-consumer retailer, because those groups can put together retailers of different formats (e.g. both discount and hypermarket). Distribution embraces also intermediaries between the producer and the retailer, as wholesalers (especially important for shops).
In addition to these main formats, general retailing (especially non-food) is going into a rise of shopping centres (also in the sub-format of fashion outlet) and the new media are offering increasing opportunities for non-store channels (as e-commerce, sale-oriented TV,…) in grocery and traditional food.

In the '60s, the unique driver of competitiveness was seen the total dimension of the retailer, where economies of scale were seen as the determinants of buyer power, logistics efficiency and width of product range, putting under a unique roof any kind of grocery and non-grocery products. Accordingly, also for a country like Italy, the modernization of the sector was seen as leading to the domination of hypermarkets, the progressive reduction of smaller supermarkets and the elimination of the fragmented shop channel. After forty years, the picture for food is the following[4]:



Albeit the general fall in traditional shops is clearly evident, the evolution of retailing is giving rise to a more complex system than the simplistic expectation based on economies of scale: the consumer keeps into account not only choice and price, but also convenience, quality, product range depth, personal relationships, promotions, to the effect that many commercial premises can thrive in the same area, much alike to an ecological eco-system (Hannan and Freeman, 1997).

Somebody is always chasing somebody else but the dynamic equilibrium is not the solipsistic dominance of one "species" only, but the ever-changing multiplicity of species with a lot of emerging challengers, also coming from the heterogeneous category "Others".

3.4. Possible innovative channels of distribution of TFPs

Traditional food producer should master their relationships with all possible channels and formats of distribution. However, they are particularly interested in new emerging ways of doing business capitalising on their "traditional appeal" to customers.

In this paragraph a single issue is taken into account, namely: how many and how different are relatively innovative distribution channels for TF manufacturers aiming at securing a direct dialogue with the final consumer?

This question arises out of a conviction (present already in several points in this text): although the retailing and producing companies have a real interest in adopting cooperative strategies, their strategic aims can (and sometimes) must be pursued separately. This gives origin to an asymmetry at the beginning of the relation. 8 out of 10 out is the manufacturing company that tries to establish a contact with the retailer, hence leaving the burden of proving the convenience

[4] Percentage values. The total market for food was 96 mld Euros in 1996, 105.3 mld Euros in 2004, 105.7 in 2005 and 107.6 in 2006. Source: Federdistribuzione, 2007.
[5] Small supermarkets between 200 and 400 sqm

of the deal almost entirely on the manufacturing pole of the relation. This means that it is essential for TF manufacturers to have their own approach to the theme of distribution. There are at least two dimensions that are crucial in this respect:

- *Monitoring consumers habits and new trends*. Food manufacturers, especially if operating in the business closer to agricultural production (fresh foods, fruit and vegetables mostly) have an interest to maintain an open dialogue with consumers. This is particularly easy for fresh foodstuffs, in that it is likely that a reasonable wide class of customers are in contact with the producers (or some form of representation of the producers at the moment of the purchase). Cases like this are favourable for the development of direct marketing (without the significant mediation of the retailing system business). They are precious in the sense that they allow an *independent channel for testing distributive autonomous solutions*. TF manufacturers should invest some resources in this alternative channels;
- *New distribution channels are useful to design new distributive concepts*. This aspect is important because it allows testing new formats and ideas for implementing retailing channels for TFproducts. TF manufacturers has a clear interest in devising formats that in the future can be adopted also by the Modern distribution companies;

Experiments can pave the way towards the adoption of new formats, the exploration of newly conceived ways of purchasing, the research for a more fine-grained segmentation of particular groups of customers. In what follows some general considerations are drawn from the most commonly alternative channels descriptions. They deserve to be called also *innovative distributive channels*.

3.4.1. The Box scheme

The Box scheme is a direct marketing channel whose adoption fits well TF products in the area of fresh foods and agricultural products. It has a good diffusion in the direct purchase system of agricultural products of biological origin.

It consists in a selling contract between a fresh food producer and the customer. The selling party is engaged in guaranteeing the customer a given amount of fresh land products at agreed dates. The delivery happens through the direct transport home of the desired products in a typical “land box”. Prices are fixed and declared in the contract (for a reasonable amount of time). This channel represents a form of strong involvement of the consumers in having products with a declared and certified property namely freshness. The contract with the manufacturers forecasts the dates and the type of requested food but it deprives the customer with the choice of foodstuff items that normally would pick directly at a selling place.

The system is attractive for those that would like to have a continuous channel of fresh food items with a guarantee of a “farm-to-home” regular provisions; it brings a flavour of direct acquisition of certain food items directly from the country. The main disadvantage is that the content of the box is fixed and decided normally by the producer. This can result in a surprise effect for the customer (no doubt searched for by somebody), but it is debatable that the majority of consumers would accept in a purchasing act such a feature.

In general the system (which is spreading out from UK to Germany, France and Italy) can be seen as an original and successful distributive strategy for the food manufacturers. It is clearly based on a sort of unsaid alliance with selected group of clients with a positive bias for the countryside and agricultural production with the added value of bio-methods. The element of “sympathy” for the destiny of bio-food manufacturers is a major convincing cause in keeping the customer faithful to the system. For this reason it is fair to recognize that the box scheme system, and in a similar ways other cognates systems (see below) are he expression of a clear advantage for the manufacturers. Producers in fact get a benefice from a selling routine that avoids the costs of further, longer chain type, intermediations, and can consequently appropriate a larger quantity of the margins. Some estimates says that a celebrated box scheme experience in the UK (Northwood farm) when moving towards a total box scheme system assured the company no less than 45% of the margins, against a 25-25% deriving from intermediated trade.

An additional element that can keep the system alive in the future beyond the circle of domestic and local purchasers is represented by the possibility of the companies involved in the system to ad a dimension of stimulus to the knowledge of the *terroir* and the specific advantages of the bio-productions. The system, in other words can be an occasion to build up on the growing “green” sensitivity of the general population and of new generations. The adopters of the system can be sort of “ambassadors” of the quality of the Box scheme approach and use additional occasions (events, “Box scheme days”, fair of typical products and so on) as vehicle to make known and encourage new clients to try the experience.

3.4.2. Ethical-riented purchasing methods: Community Supported Agriculture and Subscription Farming

Not surprisingly the trade of fresh foodstuffs is an area where the marketing strategies exploits a certain level of alliance among producers and consumers. Eating fresh food is frequently associated with eating real genuine food, and therefore consumers are encouraged by their culture, eating habits and memories to search for their "own" food providers. This explain why in a number of situations (especially in Anglo-Saxon culture countries including the USA, but also in continental Europe), a sort of collaborative action is recognizable in a series of experiences characterized by a share of involvement of both parties in the commercial trade, allowing a sort of shared risk between the two.

If on he one hand, the customer is interested in having at regular intervals of time the desired quantity of high quality fresh items, the manufacturer can claim the collaboration of the customer in a number of ways. These are related to conditions that can favour the survival of small production units respecting certain qualitative and environmental friendly operative procedures that are considered to be crucial to maintain the original quality of the goods.

The systems are clearly based on a positive biased of the consumer towards the reasons of niche agricultural productions or more generally towards bio-cultivated crops. They are specific because require a certain level of interactions among the parties and the fulfilment of conditions that are not so typical on customarily markets.

The so-called *Standard ordering Systems* are purchasing methods based on a network joining food producers, retail coordinators and households to optimise subsequent and recurrent shopping. The logic is that of integrating know consumers wanting to share the network facilities: they are regularly called by the orders coordinator so that orders are summoned and dispatched with an optimal impact on the production-order-delivery chain. Normally consumers are invited to come and take their own box on agreed dates. Payment is immediate and comprises payment of next order. Such a system may appear very demanding for the purchaser and in fact is restricted to small markets, with people involved in the systems and stable relations of direct knowledge among them. It can be a parallel or complementary selling channel in specific social environments where vicinity and imitation is a real motive for using the system.

Subscription farming is an even more pushed producer-consumer organized trade scheme. It is really based on a mutual share holding of the agricultural component of the system. Consumers are invited to be shareholders of the local farming enterprise and share with producers the entrepreneurial risk. In change of this they can claim favourable conditions as consumers. Of course the participation to the business give the shareholders a say in determining the business plan and the programme of the firm. This can be a strong motivation for having the consumers involved in partaking their views on the community they belong by sustaining faming models inspired by environmental and social values.

3.4.3. Mailing selling

This a marketing technique originating many decades ago that can be successfully applied also to non-fresh food products. It is a traditional catalogue based selling, inviting the consumer to choose the products she wants out of lists and product presentation compressed in a catalogue posted at home. The selected purchase is directly sent through the mailing system, while the paying methods can vary, but normally it happens at the moment of accepting the goods.

Several advantages arte traditionally associated to this channel that presents obvious time savings for certain class of clients. The possibility to compile comfortably the "shopping list" is an opportunity appreciated by people with important time and mobility constraints. Additional services can play a favourable role; for instance orders are usually accepted by phone, special offers and selections of particular products can be added on the basis of the direct contact with the customer. Fixed prices for a period of time is also an advantage.

The system is clearly heavy for the supplying company. It is difficult to establish it form scratch. In fact producers do not normally posses all the competences that are necessary o set up an efficient mailing selling system. There are specific marketing activities to be performed in advance in order to individuate and select the proper territorial area for the prospected action. A significant investment and a considerable amount of time are necessary to create the proper database of household contacts in the area. The conceptualisation and the physical realization of the catalogue is also a major problem.

But perhaps the two major difficulties for the entrepreneur entering the mailing service marketing has to o with two factors on which she has a minor possibility of influence: the suspect of the average purchaser over remote not-in-contact-shopping exercise and the reliability of the mail service.

The first difficulty is strategic because it is frequent that the prospective clients have reserves towards products advertised by impersonal communication tool like the catalogue: absence of knowledge of the supplying company and the impossibility of comparisons with other producers are major "brake" on the desire to experiment new channels and products. This has the additional problem for the supplying company to arrange a reputation for the company that is a major source of costs for an uncertain result. The credibility and reliability of the mail system is clearly a feature of the place. Consumers and producers know very well it. Although a good mail service can be a pride for a number of companies and consumers (hence encouraging the use of it for the trade); it is obvious that countries or regions with a poor posting facilities are not suitable candidates for pioneering the system.

In this vein, a successful case in Italy is worth noting, because the general environment is somewhat adverse: it is a traditional olive oil producer of Liguria[6], which has been selling exclusively by mail for more than 90 years. It leverages the geographical proximity with consumer, with sales concentrated in Liguria and the South of Piedmont, gathering a small but rising group of very loyal customers, built over years. In other terms, instead of exploiting certain technological properties of mailing sales, it has worked in the contrary direction of deepening the relationship with the terroir and "la longue durée".

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[6] Fratelli Carli (http://www.carli.com/OlioCarli/ita/carl/carl2.htm).

3.4.4. E-commerce practices

Ten years ago, before the “dot com slash”, e-commerce was the buzzword throughout the business community. In particular, the appeal for direct sales from the firms (B2C) was seen as a key dis-intermediation trend that would have reduced the super-power of large retailers. Hypermarkets were seen to be “small” in comparison to giants as Amazon or E-Bay, whereas even small firms could have nurtured a niche market of loyal consumers located everywhere in the world.

After years of disappointment, with total figures still mostly marginal in the overall grocery market, the evident advantages of ecommerce (notably the availability round-the-clock, the accessibility from many connected locations, the wealth of information about the product) should not obscure the disadvantages for the consumer:

- delays between purchase and delivery, with difficulties linked to random delivery hours;
- difficulties in quality checking;
- low trust for electronic payments;
- perceived potential quality deterioration during transportation;

and for the producer:

- small and random orders;
- high costs and complexity of logistics;
- legal issues in international markets.

However, the key disadvantage is that the large bulk of consumer of traditional product is “traditional” and does not like new technologies.

To some extent, this is true also for “traditional” producer: none of the producers in Italian focus group (WP5.1) has mentioned Internet as a channel of distribution.

This does not prevent to explore the theme, but it is necessary to adopt a humble approach, without the “hype” that technologists tend to boost around the theme.

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