

Retail Sector Responses to Changing Consumer Preferences

The European Experience

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Private retailer labels have been effective in providing quality assurance and meeting the highly differentiated demands of wealthier consumers, particularly in Europe.

The Western European countries are a mature market for food, with growth in demand generally associated with growth in population. However, demand patterns of European consumers are changing, with growing demand for food products with certain characteristics, such as products perceived to be safer, more healthful, or produced in ways that are more beneficial to the environment and take animal welfare and equitable labor concerns into consideration. For example, 80 percent of the consumers in the European Union (EU) indicate a concern for animal welfare (Blandford and Fulponi, 1999), and European consumers are increasingly demanding organic food products and a wider selection of such products (Lohr, 2001). The social concerns for equitable income distribution and sustainable development are reflected in the growth of sales of products marketed under Fair Trade labels. The European Fair Trade market is estimated at \$140 million annually (FAO, 1999), with participation by 50 supermarket chains in 14 countries (Lohr, 2001).

The changes noted in food demand patterns of European consumers are representative of certain segments of the population in many affluent countries. Consumer demand changes pose certain challenges and opportunities for food suppliers. In the United States, rising demand for organic products has resulted in an expansion of area planted to organic crops from 1.3 million acres in 1997 to 2.3 million acres in 2001 (Greene and Kremen, 2003). Similarly, a small and growing group of livestock producers, such as the Niman Ranch, are successfully raising animals under conditions that meet animal welfare guidelines. Therefore, opportunities exist for food producers and suppliers to differentiate their products to meet specific demands of consumers.

When value is added to products under the retailer initiative, appropriate quality signals are required to convey the information regarding the added value to the consumer. Private retailer brands exist in the United States, but these brands are generally cheaper substitutes to major brands and are not

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necessarily recognized as products associated with additional value added to reflect higher quality or food safety standards. On the other hand, private retailer brands in the European retail sector are associated with higher quality and food safety standards. It is likely that this trend will spread to other wealthier countries and the shares of private brands associated with improved quality and safety standards will grow on grocery store shelves across these countries.

European Consumers

Food consumption behavior in the EU is rapidly evolving and becoming more difficult to understand and predict. The complexity of food choices for consumers stems from increasing differentiation of food products in the marketplace, and the increasing dynamics, complexity, and heterogeneity of consumer demands (Grunert, 2002). Consumer food choice is still influenced by product prices, product quality, and income levels. But what consumers regard as “quality” has changed considerably in recent years and is today more closely associated with four quality attributes for food products: sensory attributes, health attributes, process attributes, and convenience attributes (Grunert, 2003).

Sensory attributes refer to the classical aspects of food quality: taste, appearance, and smell, with taste being dominant. Taste is an experience quality that can be evaluated only after a product is purchased, and consumers use a host of market signals, like brand, price, and quality labels, in trying to predict the taste experience.

Health attributes have become increasingly important during the last 50 years, and studies indicate that consumers give equal weight to health and sensory attributes (Grunert, 2003). While consumers are aware of the link between eating and health, they do not expect the consumption of a particular product on a particular occasion to have a health implication that they can experience. Many health effects of food are of a rather abstract nature—like the risks of particular diseases being reduced by a certain percentage—and thus do not lead to consequences that are readily accessible to experience. Health as a choice criterion for food is thus a question of communicating and interpreting various signals. Some recurring themes among signals sent by European consumers are that industrial food production is less healthy than small-scale local production, additives are unhealthy, fat is unhealthy, and vegetables are healthy (Brunsø, Fjord, and Grunert, 2002).

More recently, food manufacturers have used the health criterion in the development of “functional foods,” food products that have an added positive health benefit (Frewer et al., 2003). These products include yogurts with probiotic ingredients,² margarine enriched by cholesterol-reducing ingredients, and juices enriched with calcium and other healthy ingredients. While some functional ingredient benefits may be perceived to enhance short-term well-being or performance ability, many health benefits envisaged for functional foods deal with long-term reductions of risks of certain diseases. This type of health benefit is generally invisible for the consumer and is hence a question of communication. For this reason, the question of which health

² Probiotic refers to the use of microorganisms in a way that is beneficial to human and animal health. Harmless bacteria may be introduced through food to promote their colonies and prevent the growth and multiplication of harmful bacteria, a technique known as competitive exclusion.

claims are allowed in the marketing of such products has become a topic for public debate. Even though the type of health claim will have an impact on consumer food choice, the degree to which a health claim affects consumer choice is dependent on the consumer's interpretation of the claim based on personal food health theories (Bech-Larsen and Grunert, 2003).

Process attributes relate to consumer interest in processes used in food production, even when such processes may have no analyzable impact on the final food product. However, some consumers value other nonmarket factors, as indicated by contingent valuation studies using hypothetical food market conditions that reveal consumer willingness to pay for different social and environmental causes (Bennett and Douglas, 1996; Blandford and Fulponi, 1999; and Henson 2001). Some consumers pay premiums for organic products; for products produced with due concern for equitable income distribution, animal welfare and/or environmental considerations; and for biotech-free products, even when these products, as measured by sensory analysis, look and taste the same as products without these attributes.

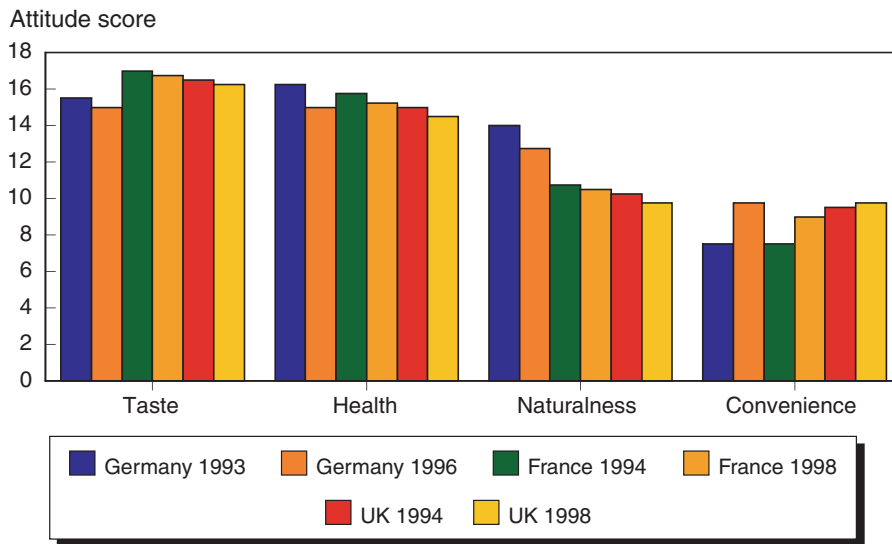
While consumers have long been concerned with methods of food production, European consumers' concerns for the way food is produced have been heightened by recent food safety shocks, such as cattle infected with Bovine Spongiform Encephalopathy, or BSE. Consumers assume that food products reach supermarket shelves via a production and processing system that is hygienic and ensures product safety. As such, food safety may not have a major bearing on consumers' daily food purchases. However, concerns regarding food safety have grown in recent years in the aftermath of dioxin contamination in Belgium, BSE in the UK, and other food scares in Europe. Because food safety is directly linked to food production, processing, and handling, food safety concerns are associated with consumer demand for process attributes.

Convenience attributes are defined as aspects of a food product that save time or energy household members typically spend on shopping, food storage, food preparation, eating, and food disposal. Though European consumers still regard taste and health as the most important dimensions of food quality, surveys indicate a growing regard for convenience (Grunert et al., 2001). Figure 3-1 presents average attitude scores from samples of household members responsible for grocery shopping and cooking in three major European countries (1,000 individuals per country).

Consumers may be interested in all four types of quality attributes, but may believe them to be, at least partly, incompatible. For example, high fat content in a dairy product may be regarded as an indicator of both superior taste and inferior health. Organic products may be desired as a form of production but at the same time be perceived as less convenient by some consumers. Convenience products with a high degree of processing may be regarded as undesirable in terms of their industrial way of production. The conflicting tradeoffs may be resolved by consumers in different ways under different situations, depending on the dominant buying motives.

Figure 3-1

Importance of quality dimensions of food



Note: The attitude scores are sums of three Likert-type items, which respondents rate on a seven-point agree-disagree scale, and the sums can range from 3 to 21. Naturalness can be considered a proxy for process attribute.

Source: Grunert, Brunsø et al., 2001.

Retail Sector Response to Consumers

In response to increasing consumer demand for safety, quality, and convenience in food, retailers have adopted more proactive marketing strategies, where they try to achieve customer loyalty not only by improving service, location, and store layout but also by having more influence on the overall value creation process in the food chain. This phenomenon is not limited to European retailers. For example, changes implemented by U.S. retailers in response to consumer demand include a marked increase in new products on store shelves, a rising prevalence of one-stop shops combining grocery and gasoline operations, and wider selection of prepared foods in store deli sections (Davidson, 2003). The growing demand for quality has also led to the success of such innovative retailers as Whole Foods, which bases its marketing philosophy on sustainable agriculture and active participation in local communities—process attributes desired by discerning consumers in the United States.

While similar demand trends exist in both the United States and Europe, preference shifts and retail market changes are further along in Europe. Retail changes implemented in Europe are primarily in response to consumer demands for process attributes in food. European consumers are far more concerned about food safety and process attributes of food than American consumers. For example, over 60 percent of British consumers are concerned about BSE, over 50 percent are concerned about animal welfare and the use of hormones and antibiotics in livestock, and 50 percent are concerned about the use of biotechnology in food production (Henson, 2001). In contrast, only 20 percent of Americans are concerned about BSE, about 40 percent are concerned about hormone use in livestock, and about 30 percent are concerned about animal welfare or the use of biotech in food production.

Among the many tools available to retailers, private labels can be viewed as one of the most effective instruments for actively securing customer loyalty to a store, as labels help ensure the same product cannot be available in any other store in the local market. In implementing the private label strategy, retailers seek dual objectives: lowering retail price and enhancing product value.³ Retailer brands may offer consumers products perceived to be of higher quality than the standard product at prices below recognized leading brand products of similar quality. Alternately, retailers may seek to add value and provide higher quality products when the existing products in the market provide few alternatives in meeting particular consumer demands. For example, the Danish retailer Dansk Supermarket offers a series of different private brands for dairy products as higher quality alternatives to the major manufacturer Arla brand commonly seen in the market. The Dansk brands are advertised as being superior in quality due to the use of local production under traditional cultural practices with due consideration given to food safety concerns. Similarly, other retailers across Europe have implemented private label strategies to cater to particular consumer demands, and there has been a trend to develop high-quality, differentiated private label products. The retail share of private labels among food products is high in many European countries, reaching 50-60 percent in Switzerland and 20-40 percent in most other Western European countries (fig. 3-2). The high quality associated with private brands has been shown to be a major determinant in purchasing decisions made by consumers (Hoch and Banerji, 1993).

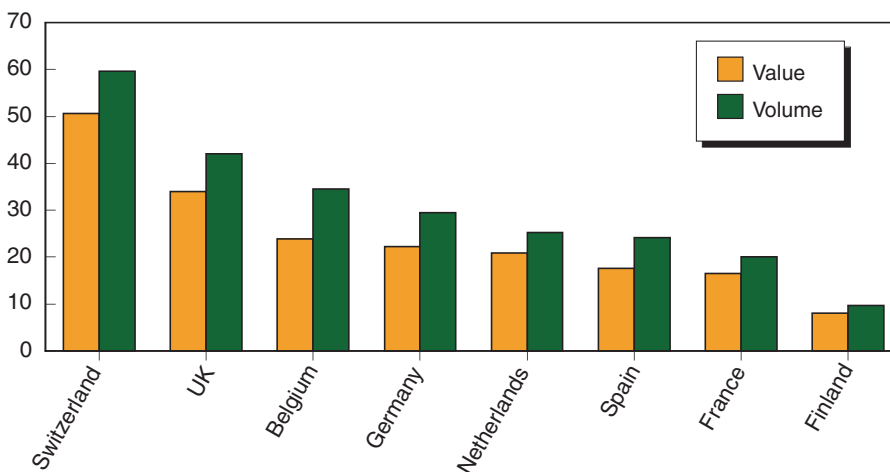
Demand influenced changes in retail strategy have implications for the way retailers choose suppliers. Branding, for consumers, should reduce purchase risk and cost in securing information regarding product quality. Retailers implementing a branding strategy must ensure that their brands meet the set objectives. Therefore, in deciding to implement a private label strategy, retailers consider a set of criteria when selecting suppliers and the type of product for branding. Interviews with 751 retail purchasers in 16 European

³ Note, this is the strategy employed by European retailers. In the United States, private retail brands are generally cheaper substitutes similar or lower in quality to major manufacturer brands. Some U.S. retailer brands, such as Harris Teeter's President's Choice ice cream, are considered higher quality retailer brands.

Figure 3-2

Private label share of total retail food sales

Percent



Source: KPMG, 2000.

countries show that, in addition to traditional factors like price, quality, and the ability to supply needed volume, the ability to trace back products and the willingness of suppliers to engage in long-term relationships with retailers are important selection criteria (Skytte and Blunch, 2001). The prominence of private labels has likely affected this shift.

A comparison of criteria retailers use to select suppliers in Western Europe and Eastern Europe, where the private label development is still in its infancy (Blunch et al., 1999), provides some indication of the relative importance of different criteria over time, and perhaps among markets at relatively different levels of per capita income. For example, product traceability is very important to retailers in Germany, who cater to affluent consumers with a longstanding demand for credence attributes (table 3-1). Traceability has little or no importance for retailers in Poland, who cater to less-affluent consumers unfamiliar with the concepts behind private labels.

The branding function places more responsibility for product design, quality control, and product liability on the retailer. Therefore, traceability and closer cooperation with manufacturers is necessary to bring about products that bear the retailer's mark in terms of design, positioning, and quality consistency. As shown in the following section, levels of cooperation between the retailers and upstream producers and processors can vary based on the degree of quality differentiation desired by retailers.

The French Beef and Produce Example

France has a long history of quality branding of food products, such as manufacturer brands for cheeses and the state-certified collective quality Label Rouge for poultry. French retailers have sought to maintain customer loyalty by employing policies governing shelf-space and product-quality

Table 3-1—Relative importance of criteria in retailer selection of suppliers

Criteria	Germany		Poland	
	Fish	Cheese	Fish	Cheese
	<i>Importance in percent</i>			
Quality	11	11	11	8
Price	6	4	5	0
Consistency	2	2	0	1
Market information	4	6	0	3
Traceability	15	24	0	1
Sufficient quantity	17	12	4	0
Promotion	3	5	5	8
Product range	16	14	10	13
Long-term relationships	16	14	10	13
Reputation	2	0	9	7
National/foreign origin	9	5	13	17

Note: Figures in the table are results from a conjoint analysis. The relative importance of the various criteria is computed as the range of utility values for the levels of that particular criterion divided by the sum of the ranges across all criteria. The relative importance is calculated separately for each individual and the figures in the table represent the average across all individuals. When the ranking is similar across all individuals the rankings for all criteria (rankings in a column) sum to 100.

Source: Blunch et al., 1999.

signaling strategies via branding. These strategies vary based on inherent product characteristics. As previously mentioned, retailers may implement branding to offer lower priced substitutes to leading manufacturers' brands, particularly in the packaged dry food sectors. However, retailer brands have recently emerged in the fresh meat and produce sectors, largely as alternate products associated with higher quality.

Although retailers respond to consumer demand for sensory attributes in food, retail differentiation and segmentation policies are primarily driven by consumer demand for process attributes, which arises from food safety concerns. Process attributes in the produce sector are considered to be indicators of certain sensory attributes and better stewardship of the land. The levels of retail segmentation and coordination among the upstream sectors of the supply chain vary between the beef and produce sectors due to the differences in the factors underpinning the retail segmentation.

The beef sector changes in France are largely influenced by food safety scares in Europe. As elsewhere in Europe, beef consumption declined sharply in France following the outbreak of BSE. French consumers are increasingly concerned about food safety, with 70 percent indicating an awareness of BSE, and a third of those who are aware indicating concerns about it (Aubril, 2002). Given the predominance of food safety concerns, retailer strategies implemented for the beef sector are designed to provide safety and quality assurances to the public. The retailer strategies often lead to close coordination and integration between producers, processors, and retailers.

The retailer strategies for the produce sector (defined as fresh fruit and vegetables), on the other hand, deal with providing assurances regarding the sensory attributes of the product, and also with assurances regarding good stewardship of the environment. While sensory attributes and environmental concerns can have some influence on decisions to purchase beef, food safety concerns overshadow all other concerns for French consumers. Food safety concerns in the produce sector, however, are less important, and only a small segment of the French population indicated concerns regarding pesticide residues in produce, and most consumers considered themselves ill-informed about this topic (Linéaires, 2002). Retailer strategies for fresh fruits and vegetables are also shaped by transportation, handling, and shelving limitations. French consumers are generally reluctant to buy prepackaged fruit, leading to higher costs and labor requirements in shelving and maintaining quality in bulk products. Since sensory attributes of products can vary based on seasonal and regional agronomic factors, retailers are generally hesitant to personally stand behind the product on their shelves. Therefore, as the retailer has limited control in assuring the quality of the final product in the produce sector, the levels of coordination and integration are less than those in the beef sector.

Beef Sector

The French retail sector employs a combination of shelf-space management and quality signaling to meet specific consumer demands as well as to maintain market share. Although all beef sold in France must adhere to nationally required safety and quality standards, private label beef is

promoted as being safer and higher in quality than the standard product, which is unlabeled and generally sold at a lower price. In the beef sector, private retailer brands can be grouped into three categories. *Substitution* brands, which are similar to basic U.S. grocery store brands, use store labels without any specific quality associated with the label. This product undergoes internal retail chain quality control and generally is similar to the standard product. To promote sales, retailers allocate most of their beef shelf space to the brand. This product may carry up to a 5-percent premium over prices of standard beef products.

Segmentation brands differ from standard beef products in that they are perceived to be of a higher quality that is certified either through internal control or through an independent third party. Segmentation brands carry a Certificate of Product Conformity (CPC). The CPC is an official (government-controlled) designation that a retailer can acquire only if it implements safety and quality standards exceeding the national standards. Products labeled with the segmentation brand get a smaller fraction of the total beef shelf space than the substitution brand. However, segmentation brands carry a greater price premium, up to 10 percent over the standard product.

Chain (filière) brands are recognized for quality and systematically carry the CPC designation. The products are produced via a quality-controlled system that may be designed to meet higher product safety standards or specific production processes, such as those that incorporate environmental and animal welfare concerns. In addition to possessing a label that reflects certain standards, the chain brands also reflect traceability of these products. Therefore, the chain brands are associated with close cooperation and coordination between the producers, slaughterers, processors, and retailers. Within this category, further distinctions can be made based on the level of partnership between the retailers and the different upstream players in the supply chain. Based on the level of quality and process assurances provided, the chain brand beef products can carry up to a 25-percent price premium, but generally command a smaller segment of the shelf space.

Two opposing strategies are noted among French retailers. Some retailers tend to maximize private retailer brand sales by allocating a large share of shelf space to minimally differentiated retailer brands commanding small premiums, while others allocate a smaller segment of shelf space to highly differentiated retailer brands carrying large price premiums. For example, the French supermarket Intermarché allocates all its beef shelf space to substitution brand beef (Jean Rozè la Viande), while other supermarkets, such as Carrefour and Auchan, carry all three types of beef brands—the standard, segmentation, and chain brands. The organic private brand of Auchan carries the highest premium, about 40 percent over the price of standard products, but accounts for less than 10 percent of the total beef shelf space.

As mentioned earlier, retailer strategies in implementing private labels have implications for other upstream sectors. A highly integrated chain involving many players may also incur higher costs and have greater risks. For such products, retailers may test the market by allocating the item only to a small share of the overall shelf space typically slotted to that product type. In planning their strategy, retailers can choose a number of coordination

schemes based on the type of branded product to be marketed. The dominant scheme in France is a “two-party” relationship where the producer and the slaughterer enter a contract, and the slaughterer and the retailer enter into a contract. In such a setup, the retailer makes all decisions regarding product quality specifications. The producer and the slaughterer must adhere to these specifications. Such a scheme is generally followed in marketing substitution brand beef.

In the “three-party” relationship, the retailer develops relationships with both the producers and the slaughterers (Mazé, 2002). Product quality specifications may be drawn up mutually by both the producer and the retailer, while an association consisting of representatives of the producer, the slaughterer, and the retailer may handle the operational management of the supply chain. The product quality specifications may be certified through a publicly recognized certification process. When the certification is conducted by a third party, the costs to provide quality assurance may increase. This type of production scheme is generally adopted for retailer private brands that are significantly different from the standard product, such as segmentation and chain brands.

Produce Sector

In the produce sector, retailer private label strategies are largely geared to provide assurances regarding sensory attributes and the levels of chemical residues in products. Private brands in this sector were established much later than in the beef sector and are also less segmented in the types of branding visible on the retail shelves. Retailer brands for produce are generally associated with the integrated farming movement in France, which consumers have associated with a lower use of chemicals, and, to a lesser degree, better land stewardship. In addition, private labels are also required to meet the necessary grades specified by retailers with regard to sugar content, firmness, size, and other product characteristics.

Retailers’ cooperation with produce suppliers is less defined than with beef suppliers. Sensory attributes, much valued by consumers, are difficult for retailers to guarantee and measure and the implementation of control and the monitoring of such characteristics can be costly. However, cooperation between suppliers and retailers can be mutually beneficial and tends to reduce the quality assurance costs for retailers (Brousseau and Codron, 1998). Given the risks and uncertainties associated with growing and marketing produce, suppliers on the other hand, appreciate the guarantee of an outlet provided under the cooperation with retailers.

The retail branding scheme practiced in the produce sector is mainly of the substitution type, where the retailer draws up production standards for suppliers. The farming practices prescribed are not always precise, and sometimes it may be necessary to ascertain whether the suppliers meet the necessary standards. Production practices can be measured by maintaining a register of chemical treatments, planting dates and growth measurements, soil analysis results, and other practices. However, suppliers may be granted some leeway, for instance, if chemical treatments are employed when pest populations exceed a certain threshold. To avoid this contingency resulting

in an erosion of consumer confidence, retailers may employ a set of clear standard operating rules and ensure that suppliers are knowledgeable about the procedures to be adopted. A third party may be employed to ensure that suppliers adhere to the standard. This produce scheme does not lead to the type of extensive cooperation that exists when a retail brand product (other than the substitution type) is produced. However, retailers may also employ more complex schemes where producers and retailers mutually set standards with the view of adopting measures to enhance environmental quality as well as the safety and sensory attributes of products. Such arrangements require confidence and long-term relationships between the parties involved and may result in a well-differentiated product on the retail shelf (Codron et al., 2002).

Impact of Food Retail Changes on Food Quality Standards

The development of retail brands requires appropriate signaling to differentiate the retail brand products from standard products. To increase credibility, retailers can seek certification by a third party, providing the assurance that the branded products meet the necessary quality standards. Sanitary and environmental quality standards are usually established and monitored by governments. However, differentiation and segmentation policies of large-scale retailers may create standards that often exceed the set government standards.

The forces in play in the European meat and produce sectors are distinctly different with regard to the use of private standards. The quality and safety associated with meat products are clearly labeled and more easily understood by consumers than other food safety indicators, such as permissible chemical residue levels on produce. For both sectors, public standards, set by individual state or European authorities, form the minimal quality standards that retailers are required to meet. The meat sector is essentially a national market and is also subject to strict control by public authorities. However, the various food scares in Europe exposed weaknesses in the existing system and led to changes in public inspection policies as well as within the private sector to further reduce risks associated with foodborne pathogens. State-level authorities were created to oversee food sanitation and also set minimum standards, for example, prohibiting the use of bone meal in livestock feed.⁴ Several procedures, requiring regular inspection and annual submission of laws to the European Commission, were also put in place within the framework of the EU directive 89/397, of 1989 and amended in 1993, which provides guidelines for production, processing, storage and delivery of food products in each member country.

Unlike in the beef sector, quality differentiation in the produce sector, where sensory attributes are consumers' primary concern, is generally not accompanied by explicit labeling, although process attributes are valued and considered as contributing to the sensory attributes. Potential produce quality and safety indicators, such as levels of permissible chemical residue and other associated safety measures, are also difficult to convey through easily understood labeling. To meet consumer demand for quality, many European retailers have sought to devise appropriate labels that reflect

⁴ For example in France, the French Food Safety Agency (AFSSA) was established in 1999 to evaluate and monitor food safety risks throughout the chain, from production to ultimate consumption.

higher produce quality standards. Using the existing national and international standards as the basis, retailers have developed several private integrated farming standards (Codron et al., 2003). Some, such as the EUREP GAP (Good Agricultural Practices), have greatly exceeded public standards, incorporating product safety and quality, production process hygiene, environmental impacts, and working conditions.⁵ EUREP GAP is a collection of British, Dutch, Belgian, and Scandinavian retailers. Some retailers, such as Carrefour and Auchan, view the standard as too expensive to adhere to. French and German retailers have not incorporated the standard in their marketing strategies and instead have chosen to differentiate their products using the public standard as the basis.⁶ These retailer standards exceed the public standards in some specific ways as desired by the retailer and supported by the retailer's consumer base.

Changes in national laws regarding minimum standards of quality may affect retail brand policies.⁷ Raising minimum standards raises differentiation costs and may lead large-scale retailers to pull away from their upstream partners involved in "substitution" type brands and focus more in segments catering to niche markets. On the other hand, retailer brands may influence public standards. Due to their economic weight, retailers are a major force in driving quality standards. The diversity of retailer brand options available in stores often reflects the different retailer expectations about future changes in food quality standards. More skeptical retailers may opt for brands that cover a wide section of their shelf space, while others who expect further consumer-driven enhancements in the public standards may devise segmentation brands covering smaller sections of the shelves.

Consumer Orientation of the Food Supply Chain

Changes in consumer preferences have driven retailers to differentiate their products by creating additional value in the eyes of the consumer. The additional value generated may be designed to meet consumer demands for special tastes, healthfulness, naturalness, and convenience. The extent of perceived value will, among other factors, depend on the extent the retailer believes the supplier will be able to support the retail strategy and the extent to which the products will be perceived as good value by consumers. Therefore, food producers can join together with retailers to create value added for end users. A successful product differentiation requires understanding the consumers, developing new products, and managing relationships among the different sectors of the supply chain.

Before retailers can begin a value-creation strategy, they must develop an *understanding of consumers*. The development of trends in consumer demands opens up new possibilities for adding value and differentiating products. Successful consumer understanding implies, among other factors, understanding the mechanisms underlying consumer food choice, the trends in the development of major purchase motives, and the role of situational factors in food choice. Because of segment-specific and cultural differences, such understanding will not transfer easily from one market to another. The more a food producer aims to build a competitive advantage based on high value-added products, the more it may become necessary to concentrate on

⁵ The EUREP GAP was launched in 1997 by a group of European retailers, the Euro-Retailer Working Group, and its full membership is reserved for the retailers. Suppliers, wholesalers, and certifying organizations can be associate members.

⁶ Among others, these may include standards such as the Maximum Limit for Pesticide Residues and EU or national pesticide or environmental regulations with regard to water resources.

⁷ National regulations may also set the grades for sensory attributes, such as appearance, sugar content, and consistency. However, the discussion here has focused more on standards regarding food safety and process attributes of food.

a few markets, where the necessary degree of consumer understanding can be achieved (Madsen, 1990).

The new *product development* and differentiation process is closely linked to markets, whereby market input is provided throughout the product development process from idea generation through concept testing to the development of prototypes. In developing new food products matching modern consumer trends, it should be noted that many of the unique qualities of these products, like health effects and methods of production, are invisible to the consumer and therefore have to be communicated. In these cases, retailers must also develop a mode of communicating and informing consumers about the new product's qualities. For food producers, new product development can be seen as a way to counter increasing retailer power. But with the European retailers aiming increasingly for private label products that not only match but surpass manufacturer brands in terms of quality and value added, new product development in cooperation between retailers and producers is a field where producers and retailers can achieve competitive advantage jointly—if they manage their relationship with this aim in mind.

Therefore, *managing relationships* in the supply chain is critical to successfully launch a private label. From the perspective of food retailers, this implies managing relationships with processors and producers to ensure the retailers' call for product traceability and long-term relationships with these supply chain members. The importance of managing relationships becomes evident whenever product differentiation and value adding require changes in raw materials or primary supplies. Differentiation in primary production or early in the value chain requires segregating products throughout the value chain.

Traceability and closer cooperation between retailers and manufacturers helps bring about products that bear the retailer's mark in terms of design, positioning, and quality consistency. The availability of point-of-sale scanner data enables retailers to accumulate a wealth of information regarding sales of products and of determinants of sales that retailers control (such as price promotions and shelf allocation). Many retailers, however, have little or no knowledge of the determinants of consumer buying behavior. Manufacturers, who generally concentrate on a more narrow range of products than retailers, have a better understanding of consumer demands. Closer cooperation with upstream sectors enables retailers to draw on this expertise when developing private label products. Therefore, a successful new product development may be a collaborative effort, with frequent cooperation and communication between retailers, producers, and manufacturers.

Looking Ahead

Increased demand for quality has led European retailers to take proactive steps to maintain a loyal customer base. As evidenced by the French beef and produce sectors, European retailers effectively use a combination of private label and shelf-space management strategies to achieve this goal. As food supply chains continue to become more consumer oriented, these

strategies may be increasingly employed by retailers worldwide to meet specific demands of different consumer groups.

The use of private retailer labels places full accountability for product quality and safety on the retailer. To ensure that these retailer-branded products meet the desired quality and safety standards, retailers coordinate and develop relationships with other upstream sectors in the food supply chain. The level of coordination and cooperation depends on the desired level of product differentiation. A highly differentiated product may require complete coordination, and sometimes, integration of different sectors. Given future expectations of continued growth in retailer brands, food supply chains are likely to continue to operate in close cooperation and coordination with other upstream sectors.

Changes occurring in food retail sectors have implications for food quality and safety standards. As European consumers remain preoccupied with health and food safety issues, retail brands are often designed to assure consumers that products are safe and wholesome for consumption. The assurance is generally provided by third-party certification. In the wake of several food scares in Europe, European consumers are often skeptical of public standards. Thus, retailers differentiate products by placing a certificate on the food's label that indicates that the branded product exceeds public safety standards. Depending on the market and retailer perceptions of the market, safety standards can range over a wide spectrum. With the globalization of food markets and multinational retail chains operating across national boundaries, private standards may often be the recognized standards for business transactions in many countries. Therefore, the emergence of differentiated products and retail brands influence not only the structure of global food supply chains, but also the rules governing international marketing and trade of food products.

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