Agribusiness Action Initiatives (AAI) – Latin America

Supermarkets in Latin America:

Case Study from Peru

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I. Introduction

This study was developed as part of the Work Plan of AAI Latin America in Peru. The document provides analysis and reflection, and encourages closer monitoring of agribusiness companies that are controlling food production and marketing. In recent years, major changes have occurred in the ways food is produced, processed and sold to consumers in Peru and throughout Latin America.

These changes are closely linked with the spectacular appearance of supermarkets and convenience stores. They offer and sell basic staple products to consumers, but this has negatively impacted the social aspects of the entire food system. Uncertainty and risks befall small producers, intermediaries, workers, wholesalers, and consumers.

Supermarkets are recent in Latin America. However, it is a fast growing phenomenon for countries such as Peru. This is causing all sorts of distortions in the farming, production, processing, distribution and marketing mechanisms.

In times of intensive global food production, the crisis has risen. Whereas the news is showing the food crisis as a recent event, the reality is that famine has been "hidden" in rural and marginal areas, even when this is killing thousands of people daily. We know by growing evidence that the number of affected people in urban and rural areas is increasing those numbers. The news has traveled with food riots and queues of hungry people in countries such as Haiti, Argentina and Honduras.

Latin America, Africa and Asia are the most affected continents by hunger and poverty. This is highly concentrated in rural areas. The situation will only worsen by the imminent effects of climate change. Economic development and growth have shown their limits, and benefit only a minority of the population. Conventional economic growth and the development patterns, as it has proven, have caused environmental damage. Again, their promises will never resolve the precarious situation of how the vast majority of the population lives nowadays.

In Latin America extensive areas of arable land no longer belong to farmers. They once owned and worked the land with their resources, but now they have to work as cheap labor for agribusiness firms. In large cities people are encouraged to improve their living standards, but unfortunately at the end of the day, many go with empty stomachs.

Large agribusiness corporations are increasing their control over the food system at the global level. One side of this is that agricultural business has started to be managed by supermarkets, even when this is the last part of the food chain. The liberalization of trade (free trade agreements, FTAs) and liberalization of investments in agriculture has led to this situation.

This study tries to raise awareness on how supermarkets operate. They impose on consumers harmful consumption habits, and these are encouraged by various agribusiness firms that see great advantages in found in aligning with these large stores.

II. The paths to agribusiness in the food systems

In Peru and throughout Latin America, agriculture and food production have been transformed. In recent decades, this has gone from a traditional model based on household production for local, regional and national levels to an agribusiness global that is shaped by global driven aspects. This complexity has been defined with a series of activities and relationships that interact to determine what, who, how and what methods are needed to produce and distribute food. Whatmore conceptualizes the system as consisting of five interrelated parts: A) industry of the agro-technology, B) the industry of the agricultural crops, C) the industry of food, D) the food marketing companies, E) and the supermarkets which place the food in the consumers` basket.

2.1 Role of Agribusiness

Over recent decades in Peru, as in the rest of Latin America, food production has experienced a large shift. This is a move from family and small farmers who owned a piece of land supplying local, regional and national markets to large investments for mono crops controlled by transnational corporations. These businesses are implemented with the sole purpose of profit making based on industrial activities. They began with the expropriation of land and then converting the labor force into private property and commodity. This reflects the historical development of capitalism.

Those who are behind large agribusiness are the ones who control the production, processing and marketing of food. The model is to develop "agriculture without farmers" and then to end questions about who owns the land, who brought the food to the tables, what is inside the packaged products, what about pesticides and preservatives used and why insistent advertising is everywhere. Another factor is the appropriation of local markets. This process might have been slow, but it has been effective in conquering the different sectors. Co-optation and acculturation of local farmers has been visible as some have been persuaded of to start a second business with their agriculture, and then move from small farmers to rural entrepreneurs. The agro-export model and new biotechnologies have been attractive for them, but on the other hand, it has created dependence at all different levels.

The core of agribusiness relies on the use of high agro-technologies, including genetically modified seeds, agro-chemicals, and synthetic fertilizers, and agribusinesses also add the labor force from third parties. This entire package represents the Trojan horse for the reproduction of the whole food system that takes place in global capitalism.

Agribusiness have sizably increased their investments. They are pushed by: a) capital-intensive technologies, especially the genetically modified seeds, b) minimum labor force by outsourcing jobs and, c) by speculating on food prices with the artificial variations given at the Stock Exchanges.

Another variation is that these companies have expropriated regulatory functions from National States. However, when they need the States they make use of the States` resources and influences over the society for their own benefits. In reality, the sectors involved in agribusiness are the ones who fix the prices of the products to be sold in the cities to the consumers. The relationship between consumers and the agro-food industry is managed in a way where profits are the ones that matter, and the owners are controlling all the aspects of the system.

Large supermarkets are not just mere intermediaries. They end up imposing prices, quality demands and the other specifications of the products to be offered in their stores on the producers who are part of their supplier’s chains. Many suppliers end up as big losers due to artificial price fluctuations and to stringent ways to produce, use certain types of seeds and technology, and other aspects outside their control.

The agribusiness model has been projected as a hegemonic condition over lives in all areas of the food supply chain without exception. This model is pursuing large profits at no limits. They are emptying rural areas. This in turn makes cities unmanageable, as jobless people in rural areas have no other options but to move to cities. Peru is a country relying on the model of industrial agriculture that will take advantages of new large-scale production for biofuels. This inevitably will lead to an even greater risk: the lack of sufficient food to feed their population.

2.2 Peasant production can feed the world's population.

Contrary to media reports, small and medium farmers are able to feed 70% of the world population, whereas foods supplied by the agribusiness sector – including supermarkets - are only reaching 30% of the world population. This information allows us to understand the importance of so-called ancient agriculture models that fed thousands millions of people over centuries.

Peasant production can be seen as low profitability and productivity compared to the large scale production run by the agribusiness firms. However, small-scale production is where farmers and producers have access to local and regional markets, they generate important revenues for their communities and they make use of fewer natural resources. All this helps to protect the environment as they make minimum use of machinery, synthetic fertilizers and insecticides. This low scale production does not allow artificial food processing.

On the other hand, we have the new model where large companies intervene. For example, Monsanto and Wal-Mart have entered into partnerships with other large companies in order to significantly increase their profits. This circle of companies are the same that produce the technology, the seeds, the machinery, fertilizers, insecticides, pesticides, and the buy and process the agricultural products, and then process and package these for consumers at the very end. This model is characterized by complex operations; these operation are only possible due to the intensive consumption of fossil fuels.

In the 1970s during the green revolution, there were about 7 thousand of seed companies in the world. During those years, none of them exceeded 0.5% of the global market share. In 2005, ten companies were controlling half of the global seed market, among them Monsanto. This company is now the largest seed producer, and controls 88% of sales of GMO seeds worldwide. If we consider that these types of companies are not just behind the monopoly on seeds, but also are increasing their control over land and water resources, control transportation, design the sanitary regulations and other key aspects; then we are faced to a vey dangerous system that is enclosing food production, distribution and marketing.

The agribusiness sector has changed the way people used to live and produce. It has meant that only few farmers can pass to an intensive model of production, which leads directly to aggressive monocultures. The transformation also creates an exclusionary system that pollutes planets` biodiversity. According to some scientist`s views on how industrial agriculture has been developed, is also the cause of being at the edge of the destruction.

Despite the environmental assessments and scientific produced data that warn us about this trend, very little is being done. Global warming, climate change and species loss are truly connected to this type of type of farming, and a system highly dependent on fossil fuels. The link between producers and consumers has been broken in many large cities of Latin America.

Another impact of formalized agribusiness is that production priorities have shifted from local and national markets to production of specific products for foreign markets. Agribusiness has increased exclusion and it has deteriorated the income of small farmers and their living conditions. At the other end, large supermarkets buy their products at very low prices. This is why agribusiness is not fitting all producers; access is limited by these consolidated markets of major distribution and retailing chains.

Differences between large corporations and small farmers are huge. For example, corporations:

- Have no permanent location -- they go where land is more suitable to practice their business;
- They rent the land and/or employ outsourcing;
- They often tend to be transnational, with no national capital;
- They are not interested in preserving the environment and do not follow the principles of land conservation;
- They make intensive use of land;
- Their mono-crops are highly dependent on genetically modified seeds, chemical applications and synthetic fertilizers;
- In general they are not accountable to anyone else but their boards;
- Their production is large-scale and mainly for export;
- They pay low wages and guarantee no labor rights;
- The lobbyist of these companies create or find loopholes in national legislations and make these toothless;
- They spend great amounts to influence different authorities and develop campaigns for political pressure that will favor their ends.

This entire situation is clearly seen in many countries and Peru. The working conditions of small producers and farmers have turned precarious. The ones who stay in the rural areas must sell their products only to large suppliers or sell their land and become daily workers in the fields that belong to the companies. Those who are not ready or able to do that, and cannot find other jobs around, they often have no other option but to immigrate to the cities.

III. Supermarkets as part of agribusiness: from local markets to large supermarkets

In 1916 the first supermarket in the United States was established under the name of Piggly Wiggly. Since those early years, supermarkets have grown in such a spectacular way that today there are just a few countries in the world where there are no such stores. This way of shopping has been encouraged by two kinds of technology: the private car and the refrigerator. These two devices are the main contributors of this phenomenon. The driver – the consumer - runs to the supermarket with his car that has enough space to load large volumes of goods. Then at home, there is a refrigerator that can store for long periods different types of processed and semi-processed food and drinks that will be conveniently available. The consequences of this way of living have not just changed the buying habits. This also has created a strong competition with the traditional retailer systems, such as the local grocery store, specialized stores (fruits stands), public markets, seasonal farmers markets and others. These were the multiple options for consumers to obtain food and also consolidate their social networking.

3.1. Evolution of supermarkets

At the present in all Latin American countries, we can agree that there are still five different ways for consumers to get their goods: public markets, seasonal farmers markets, local grocery stores, specialized stores (fruit stands), and lately convenience stores that include supermarkets. The first four options have subsisted for centuries and have an ancient history; these have also been accessible to all strata of the population.

However, there is sufficient evidence to say that those four options will increasingly struggle to compete and face the fast-growing expansion of supermarkets in the region. Their situation in Latin America is not the best during these times:

1) The is no data available of how many of the small business are displaced each year, even when apparently there are many openings, but this is not compared to the fast openings of supermarkets.
2) In small towns of many countries, the few supermarkets that were introduced in the mid 1990`s are still not very widespread. However, supermarkets have rapidly penetrated in those rural areas (those with large percentages of high and middle income class people).
3) The old ways of operating markets have no strategy for development and growth. Over the last decades, they have not experienced necessary investments; they work with obsolete systems, compete for space, they have organizational deficits and face hygiene problems, especially in the open markets. The other big challenge has to do with their working circumstances in large and expanding cities.
4) Finally, many of these smaller or local establishments have sprung up spontaneously outside the law; as a result they often lack minimal public safety measures.

On the other hand, supermarkets fast growth has not been done in isolation. Many other sectors and aspects are part of the phenomenon. For example, trade liberalization promised the access to cheaper products and better services. However, this turned to be a half-truth because many sectors of society were left out of the promised benefits, including local markets that have existed for centuries to serve the people.

3.2. Factors behind the demand

Peru, like the rest of Latin American countries during the 1940`s, was predominantly a rural country. During those years 70% of the population lived in rural areas and only 30% in small cities. This situation gradually changed and reversed the situation by the end of the mid 1990s. Today only 30% of the population continues to live in rural areas and 70% are settled in urban areas.

The concentration of population in urban areas has big impacts in the growth of demand. There is a growing need for housing; more and varied job opportunities are required. Women have become part of the working class, and as a result there is more income available for the entire family. But then more money is spent for processed and semi-processed foods, as a way of saving time.

Another factor is technology: the growing number of refrigerators and automobiles. The fact of living in cities and having paid jobs, plus a refrigerator and probably a car; have totally modified the buying habits of most families. They tend to space out the shopping times up to one or two weeks all once. Small groceries stores in the neighborhood tend to be negatively impacted as there are few buyers coming to them.

A second factor favoring the demand is the quantitative growth of the middle income class. Their incomes have been higher since the 1990`s. In terms of food needs, this sector of the population is more likely to consume packed and processed food. The prices of these types of food are sometimes much cheaper; these products also save time compared to those being sold in the local grocery stores or at the public markets. This happens because the processors are linked to the scale economy that reduces their processing costs.

3.3. Policy drivers and the supply side

Once many trade barriers had been lifted in most of the Latin American countries, Foreign Direct Investment grew with minimum regulations. In the supermarket, restrictions use to be imposed to respond to national polices, such as food security or sanitary regulations. However, these were considered trade barriers and were lifted. They do not exist anymore, and foreign investment encouraged by the expansion of globalization made possible the boost of the food sector.

It was during the early 1990s and the beginning of this decade that trade liberalization was almost completed in the retail sector. The process was consolidated with the structural adjustment programs implemented in those countries, along with the conditionalities of the International Financial Institutions. Then trade bilateral agreements were totally adopted and expanded in countries such as Mexico, Brazil and Argentina. These were the Latin American countries that either signed the North American Free Trade Agreement (NAFTA) or MERCOSUR at the other end in South America. On other parts of the world, trade liberalization took more time and small retailers resisted longer. For example, Indonesia resisted until 1998. In Philippines and Thailand the process started in 2000. China has the longest period as they began with a partial liberalization in 1992 and it was not completed until 2004, as part of their acceptance at the World Trade Organization. India started partial trade liberalization in 2000, and in 2006 they were still discussing how the process would continue. These are examples of how trade liberalization for some countries took longer and therefore the impacts on the producers were lessened.

3.4. Patterns of foreign direct investments in the retail business

There are several reasons why transnational corporations moved into Southern countries to make their investments and expansion.

The beginning on this trend was that multinational corporations from Western Europe and the United States were battling with national saturated markets and with high levels of competitiveness. This market situation was part of a consolidation process that in Europe was completed at the end of the 1980`s, and in the United States was finished in the mid nineties. Multinationals located in developing countries for many circumstances also experienced some of this situation created at home. So they combined their expansion to secondary countries, mostly to neighboring nations. This dual strategy allowed them to keep afloat their operations and sustain their commercial occupancy. In that way these last large supermarkets were better off when other corporations came to the region.

The other opportunity they had at this time was transferring to less saturated markets and with less competition. This move involved significantly higher return on assets for those corporations. For example, Gutman (2002) found that returns for Carrefour - the giant French supermarket - was three times higher in Argentina than in France. The advantages for multinational corporations over domestic firms are marked by the size of their capitals and the cheaper credits they get. This resulted in better chances for these large chains than those they made in their home countries. This happened because they came in when there was no market saturation by international competition, just a limited number of large local chains. Other advantages for these multinationals is that they have access to the best practices of retail management and logistics, some of them even have patented different innovations. These retailers also have generated their own small technologies and their own acquisition systems.

During these past 10 years Latin American countries have experienced a consolidation of the supermarket sector in the hands of large corporations. This was encouraged by the above two phenomena in their own countries, and the business opportunities in this region. Foreign-owned and consolidated business is often happening at surprising levels. In Latin America, the supermarket sector almost entirely is run by global corporations -- close to 70% of all the existing stores, and from those, 80% belong to the five major chains.

The rapid consolidation of the supermarket sector in this region is similar to what happened in the U.S. and Europe. In Latin America, the top five chains represents 65% of the entire supermarket sector, compared to 50% in the United States and 72% in France. The consolidation has taken place mainly through the acquisition of local chains and, secondly, when larger national chains absorb the smaller chains and independent stores all over the country.

3.5. Polices and regulations

In most countries, national norms for the commercial sector continue encouraging the expansion of supermarkets. This promotion has nothing to do with the trade-restrictive regulations that allowed the supermarkets to growth in United States and Europe in the 20th Century. In this way, it is highly accepted that the existing investment environment in these countries is a main factor of the rapid expansion of supermarkets.

On the other hand in the region, the legal framework does not offer the same opportunities to the traditional retail sector that favored foreign investment. Better options for large corporations have been given priority by promoting the modernization of food distribution sector. This was justified by income generation. Sometimes, governmental polices have sponsored these foreign companies that operated with resources such as access to credits, they own assets, they move capital and they are benefited by financial incentives. All the capacity that took years to build for national retailers has gone now as these local supermarkets are more and more owned by the transnational chains. Another modality is that Central Governments and Local Mayors encourage and create incentives for giant stores to locate in some specific areas as a boosting factor for modernization, tax revenue and job creation.

Another challenge for traditional retailers is physical space. Governmental regulations and local restrictions do not allow and/or restrict the development of new public markets, grocery stores and other type stores. They justify their actions by arguing that the informal sector can cause congestion, those places are not clean and authorities need to control their activities. People working in the informal sector have been branded as obstacles to the modernization of the commercial sector.

In Peru many local authorities have limited the space and imposed different regulations in the existing public markets. These polices aim to stop the development of new public markets that sell fresh produce. There are many demands to stop expanding their areas and even different proposals to move them out of the main cities. Some other municipal governments even have gone so far by banning morning fresh product sales on the streets. In the end, the real fact behind all these regulations is that local popular markets are competing for consumers with the supermarket chains.

3.4. Supply drivers

After the expansion of supermarkets in the region was made due to direct investments, traditional retailers had to find a way to survive. The modern retailers made big changes. They worked on the cost and quality of the products that implied another state in the retail competition. This implied reduction of the production costs and improvement in quality in order to penetrate the mass market and reach the middle-class clientele. The modernization of procurement systems has been crucial for the scale economies and in the reduction of the coordination costs.

It is very important to analyze the scenarios through time in the region. Until recently, the procurement system for local traditional retailers and large supermarkets had many aspects in common. The variations were in the products origin and the product categories. After that each supermarket purchased their own products, used one or many giant producers as suppliers, they went to few different markets near by, and many of the products came from other traditional retailers who depended more on the spots left by the market. That meant that they did rarely rely all on the suppliers and they were confident in the existing public sanitary standards.

Nevertheless, supermarket chains have had problems with the traditional ways of acquisitions. This is because each product they buy has to meet their goals of quality improvement and cost reduction. They found that the traditional wholesale system had low or no quality and safety standards, as well as no volume consistencies. And despite the cheap labor in the industry of intermediaries, the transaction costs were very high in terms of coordination, especially because they involve many small brokers who are important after the inflection point. This is unique for the vegetables and fruits suppliers as they have become a substantial part in the wholesale marketing.

Large supermarkets have found ways to get out of the traditional system. In order to do that, they created paths to modernize their procurement systems. Also they have worked towards sufficient incentives to change the terms of costs and benefits. All this has been combined with sufficient capital and managerial capacity that allowed them to make the necessary investments and set in practice all the possible changes needed to increase their profits.

3.5 Heterogeneous diffusion of retailing

The adoption of new technologies in retail purchases varies greatly. It depends on how large the chains are, the type of products they offer, and the countries where the supermarkets are based. This reflects the heterogeneity of incentives they have access to and the capacity they have to make shifts in their operations. Certain contexts are defined by these dimensions. Then the supermarket diffusion is located at the start of the "S curve", whereas those modern retailers that are the most advanced ones are situated at the reminiscent of waves of diffusion (not sure what this means). This inequality of adoption is not specific just to Latin America. Kinsey (2004) also observed this situation in the United States.

It is significant to say that the modernization of the procurement system is concentrated. In each country there are 4 and 5 supermarket chains but no more. They had invested towards this concentration and have had the capacity to become the large distribution centers.

So far in the region we have seen that several global and regional multinational chains have adopted these modernization changes. This has been a crucial disadvantage for local and national supermarkets; they have continued using the traditional system. However, some of these supermarkets have tried modernization in a gradual process, but probably they will delay those changes and/or they never be at the point of making the significant shifts.

The modernization changes have implied the reduction of costs. Those traditional stores that have started late to adopt the associated changes, sooner or later will find themselves as non-competitive. The large supermarkets do not have this problem as competitiveness is their goal. A result of this is all the mergers and acquisitions we have seen every year in different countries.

When a leading chain located in a country makes changes those are visible. One of the last shifts has been in the distribution centers of non processed products (vegetables, fruits, meat, etc). Then other supermarkets (mostly national ones) are pressured to make shifts. As Cochrane explains this is a clear process in the spiral technology (or treadmill). An innovation made in the procurement system implies a corresponding rise in the profit making and drop in the costs compared with competitors with no ending point. The supermarkets that are at the forefront of the innovation process are those that have routinely implemented new technological changes of the procurement system. This is another factor of putting pressure over others that do not make changes.

Another key factor is advertising that comes along with modernization. This varies from among products and product categories; there are different waves of how products were introduced to the markets. The first advertized were those totally processed, then the semi-processed and recently the fresh products. In Mexico this process took clear steps over time. In the modernized procurement system, advertizing for the processed products took place at the end of the 1980`s and early 1990`s. This was possible also thanks to the parallel modernization of supply systems of major processors. In mid 1990`s the turn came for the semi-processed products. It took only a few years (3 to 4) to experience the modernization of the procurement systems for fresh fruit and vegetables. This pattern of operations showed an increase between 1% and 2% to 8% or 10% in the food sales in those supermarkets and hypermarkets.

3.6 Future scenarios for the supermarkets expansion

By 2015 a wider diffusion of supermarkets in the developing countries is expected. This will result in less participation of small and traditional retailers, less income distribution, more urban settlements, increasing women participation in the workforce and the stabilization of the advantages polices for direct foreign investment.

Traill (2006) notes that in Latin America and Central and Eastern Europe, income growth and urbanization will drive supermarket expansion. This is happening even without further trade liberalization. On the other hand, he also argues that for countries that were even moderately closed to direct foreign investment since 1995, trade liberalization has had a substantial effect too. He also notes the importance of these factors in Africa, China, Russia and India.

IV. Impacts of the supermarkets on food sovereignty and food security

In Latin America, the presence of supermarkets and their expansion has been significant. This has had implications to national economies and to the entire society. At different levels the relations among producers, intermediaries and consumers have been modified. This takes place when the owners of these supermarkets are foreign chains that consider local producers and intermediaries as marginal sectors. In general, this new phenomenon fragments the production system from consumption within the countries.

4.1. Impacts

The growth of supermarkets has significantly affected local economies. They have contributed to the decline of traditional retail sector, mainly due to competition. They are faster than the little stores in selling new lines of processed foods and dairy products. In terms of the vegetable and fresh products, the inside store (what kind of store is this?) extend their lives by making use of the technology.

In Peru during the past year, large supermarket sales grew 15%, and the traditional retailer’s sales fell by 2%. Back in 1990 it was just rich consumers and expatriates who went to a supermarket. By 2005 this situation had changed totally. 30% of food products and 15% of vegetables and fruits were sold in supermarkets. In Chile between 1991 and 1995, 15,777 small stores disappeared from urban areas around the country, but mainly in the capital of Santiago (4 million of inhabitants by then). This represented a decline of 21% -22% of overall small food shops, 25% of meat, fish and dairy products in the deli stores, and a decrease of 17% in the fresh fruit and vegetable small stores.

Gutman (1997) notes that in Argentina, during the most intense period (from 1984 to 1993), supermarkets took off in the urban areas. Small grocery stores went from 209,000 to 145,000. That meant that 64,000 shop owners went out of business. The author considers that during the 1990s, 4 out of 10 local grocery stores became convenience stores; another 4 survived but with drastic drops in their sales; and 2 had to close. Rodriguez and others (2002) note that while those general small groceries quickly went bankrupt, others slowly disappeared. The most affected ones were the shops dedicated to specific niches, particularly bakeries, fish markets and butcher shops and fruit and vegetable.

4.2. Price Competition: critical point between supermarkets and traditional retailers

Supermarket chains experience more changes than the traditional retailers. For example, they lower prices more often. This trend is correlated with the stage of advertising of the supermarket products, the type of products they distribute, and in general because the prices of processed foods are much more competitive. Also with the modernization of the procurement systems, these chains were able to more frequently lower the prices of fresh fruits and vegetables.

The main elements of the modernization of the procurement system include many steps. One of them is a move to a centralized procurement through the distribution centers. This tends to increase their geographic coverage from local to national and regional markets. Centralization leads to the significant reduction of the coordination costs and the joint management diseconomies. Profits are increased when they can reduce the transport costs. Also by buying at large-scale, they have greater bargaining power over their suppliers. At the end, the transaction fixed costs per unit are even more reduced.

On the other hand, there is a silent push for a gradual shift in the traditional retailers and small markets. This encourages them to buy from specialized suppliers, to buy direct from growers or farmer`s associations. This is a concrete way of increasing the efficiency and reducing the margin costs of the wholesalers.

This modernization is realized when:

1) competition is highly promoted in the supermarket sector by encouraging the technological changes;

2) the largest chains are the ones leading this modernization as they have the capacity to do so;

3) suppliers have changed and now they tend to sell to the chains, avoiding dealing with the small supermarkets.

A recent study showed that in Chile supermarkets effectively have lowered prices. This country is considered among the first ones that encouraged the giant stores. The document indicated that by reducing the costs of main products, the living costs of the middle-income consumers tend to be reduced. D'Haese and van Huylenbroeck (2005) in another study from South Africa – a country in the second wave – indicated that prices of processed food and basic items were lower in the supermarket than those at the small grocery stores. The findings were taken from 10 products (including some fresh and semi-processed) that were highly consumed in towns and rural areas. Neven et al (2006a) show that in Nairobi, Kenya – a country in the third wave - supermarket prices for processed food and non-food items were lower than in traditional stores, but fruits and vegetables had similar prices as the ones from the open markets.

Nevertheless, in Latin America, competition in prices is a major point of conflict between supermarkets and traditional retailers. Large supermarkets can lower prices, because they can reduce the costs as they are linked to the modernization of procurement and to the scale economies they are part of. Traditional retailers cannot afford to be part of those economic practices. This sector instead continues working through purchasing clubs and franchise agreements that incorporate small retail shops. Then the giant supermarkets accuse the traditional retail sector of not paying the associated costs related to formalities such as registration fees, infrastructure (modern buildings, parking space), and hygiene standards enforced by authorities.

The other accusation comes from the small traditional retailers. They accuse the supermarkets of selling products at unfairly low prices. It is said that these low prices are subsidized by other gains. On the other hand, supermarkets take advantage of extraordinary events such as promotions or long-term marketing campaigns. These events are used to make supermarkets more attractive places to go than the traditional retailers. These large stores indicate that the small shops in the informal sector do not pay taxes and registration fees and, as a result they can afford to offer their products are unfairly low prices.

4.3. Competition and convenience

Supermarkets and traditional retailers in Latin America and Peru are competing in terms of convenience and benefits to consumers. Specifically this happens when there is a set of transaction costs for consumers when they purchase a basket of food items.

The first concern a consumer has is the cost of an item. This is related to time for search, transportation and the possibility of buying the most products they need. This comprises other several aspects:

1. The distance between the store and home;
1. The many times they need to travel to get all the items;
2. The variety of items available at a particular store;
3. The opening hours of the store and hence the consumer's ability to reduce the cost opportunity of going to the store and;
4. The expiration dates of the products sold.

The comparison between modern and traditional retail sector is complex in terms of the costs. The use of the term "supermarket" refers generally to a modern retail and in multiple formats. While supermarkets and hypermarkets are both modern retail stores but generally these require more travel to get to, traditional shops are more accessible, they are small, they are in the neighborhood where consumers live, they show modest discounts; and after all they are of easy access in terms of the times to go since they are located within high-density neighborhoods. On the other hand, a large modern retail store tends to have a wider variety of products compared to small shops, and then one trip is probably enough, whereas the small shops have to be visited several times.

In general, in Peru we can see that supermarkets are outperforming small shops. This is because consumers welcome the advantage these stores have. They offer a greater product variety and have extended their working hours. In particular, this is welcome by the urban middle classes, who can get their processed and semi-processed products with a high opportunity in terms of time costs. Then they can travel once a week in their cars and put them in the refrigerator. In this context is was found that supermarkets have extended the options for dairy products at lower prices compared to the small grocery stores where it is difficult to find more than five dairy products.

Modern retailers and in particular large transnational supermarkets, have taken other advantages. They have introduced different formats for their expansion. For example, they have created the convenience stores, the small urban stores, hypermarkets, discount stores and super discount stores. They also have extended their opening hours and they have been located or relocated next to urban centers as allowed by the State planning authorities.

From the standpoint of competition, small shops and open markets are still strategic. One of their main advantages is the location of their places. They are in the city, in the neighbors and next to the people in the city centers. They also have a clear modality for offering fresh products and have a personal service with their clients. Therefore the location and the opening hours are constant battlegrounds when it comes to the regulatory debates.

There is an additional advantage in transaction costs for the small grocery stores. This is related to credit consumers can obtain and other combined services. The conventional view is that the corner store in a neighborhood offers credit to known consumers. This makes them more attractive to lower income persons, compared with the supermarket where you pay in cash or you have a credit card. However, the reality is more complex. With urbanization and population mobility, there is more evidence in the decline of credit offerings by small shops. In Peru and Bolivia only 10% of their customers can buy in that way.

By contrast, supermarket chains have recently made major shifts. They have bombarded consumers with their issued credit cards and they have offered banking services. In Argentina, during the economic crisis at the end of the early 2000, supermarkets made huge profits, as they were offering credit cards, whereas small shops had to close or abolish their credits. Planet Retail said that Carrefour in Brazil and Wal-Mart in China recently launched banking services and credit cards, following a trend of these retailers in the developed countries. This is complemented by the strategy of offering all at one place, as they have added petrol stations, fast food restaurants and pharmacies, all in one store.

4.4. Competition in quality and safety

There are two dimensions in terms of quality assurance and safety.

Supermarkets chains ensure the product quality and safety through: 1) a close managing over the supply chain, and 2) products` labeling to guarantee safety. These large stores have certain advantages over traditional retailers on both dimensions, creating more competition and increasing the tension with smaller stores.

While supermarkets and traditional retailers can both offer access to safe and high quality of fresh and processed products, large chains are better off in the coordination of the supply chain. This is possible because they have modernized their procurement, which increases their capacity to ensure proper post harvest handling along the supply chain. They do this through private standards. By labeling all products, consumers are attracted as they consider security of the products is ensured. This has been used by the supermarkets against smaller retailers and stores.

There is growing evidence that consumers perceive as more credible safety claims by the supermarket chains than those in the informal sector, such as safety for vegetables. This type of branding is a source of the growing tensions between the large chains and the small retail sector including the markets of fresh products. The owners of the small business have indicated that they are against this form of branding, either implicitly or explicitly done by the large supermarkets.

Corporate responsibility is another important part of the image large supermarkets have with consumers. They claim by definition that they follow all regulations in terms of expiration dates and other sanitary definitions. For example, in Latin America this is a well used fact contrary to the dairy products sold in the informal sector, or the fresh markets. However, it has been found that even the `formal markets´ do not meet the standards, but what they do is to reinforce the image to consumers, that they are constantly monitored.

However, consumers find other risky food items in these large supermarkets. Most of the processed or semi-processed foods they sell are not monitored and it is far from being regulated in terms of the genetically modified ingredients and hormones substances. All these ingredients and food items are health concern, but there is no legislation that protects consumers and prevents supermarkets from selling these.

Many of the tensions between supermarkets and traditional retailers are in the nature of competitors. Sometimes they have better and different advantages and they increase them with the opportunities they have around. The other part of the tension is a political one. Traditional and local retailers grow spontaneously with some level of representation, whereas the large stores are totally organized.

Finally, there is a growing phenomenon of lessions learned from these tensions. Traditional retailers can transform their marketing and procurement systems to compete with those large supermarkets. Some of this has been seen in the public and fresh markets in Indonesia, Malaysia and Thailand. This is not just for strategic reasons of doing good business; but it is also the governments support. Governmental regulations and investments in the sector are shaping this other type of modernization. This might result in fair competition between traditional and modern retailers. Furthermore, traditional retailers will need less capital and will contribute directly with more jobs among different segments of the society such as farmers and other intermediaries.

4.5. Tensions and conflicts with suppliers

The base of the conflict between supermarkets and suppliers is closely linked with the modernization of their procurement systems. This innovation has been developed in order to increase the supermarket`s profits over suppliers.

The "structural tensions" between supermarkets and suppliers are given mainly to the formal requirements, such as legal registration and billings. Supermarkets are increasingly strict on requirements with respect to volume, consistency, quality, lower costs and different business practices. This implies that suppliers have to do large investments and increase their costs in terms of maintaining their relationship with large supermarkets. As the supermarket sector is consolidating, the bargaining power over their suppliers becomes heavier leaving few or no other options to their suppliers.

Some of these tensions are likely to increase unless policies are created as solutions. In this relationship, there is a large portion of producers who are left behind as modern markets move ahead. For example, there are many farmers, small food processors, and distant producers that never will have access to these new markets. To this situation of exclusion, we have to add that these people are also the ones with less political voice, and as a result it is less likely they will struggle to change this situation.

Another tension between suppliers and the supermarkets might be identified as "behavioral tensions". This goes beyond the forces of market consolidation and competition practices mentioned above. This relies on the discretionary practices of each individual chain in regards to their suppliers. A number of complaints have been described in Latin America:

- Large supermarkets pay after and with significant delays, different from traditional retailers who pay in cash. In Peru, larger supermarkets backlogged the payments to their suppliers because they were using that capital to continue their expansion, turning the suppliers as lenders of fact. During 1999 and 2005 these chains took from 60 to 100 days to pay their suppliers. This in contrast to the consumers who paid in cash or rather had 25 days pay-off as for their credit cards. In Peru since the Law enacted in 2001, credit cards have a period that not exceeds 30 days for payments.

- These supermarkets are constantly changing the supplier's practices and standards according to what is better suited economically. They impose a series of commissions such as provision of certain space in the stores, promotional fares and special discounts and contributions for special events such as the new opening. Also they require other wide range of post-harvest services, such as special packaging and delivery times. All these go beyond the strict and high quality standards they require.

- Another practice is that supermarkets use implicit contractual relationships with suppliers. This means that most of the time there are no written signed contracts, just few exceptions with large corporations. The most affected by this practice are some medium suppliers and special categories as those for fruit and vegetable products. Ambiguity is big and transfers all the risks to the suppliers.

The tensions and conflicts, involve costs for the entire system. This increased competition among the different chains have also intensified the contradictions. While large supermarkets extend the payments delay in order to cut costs in the supply chain and lower prices to customers, they create emergency funds to compete against other retailers and they become more demanding in terms of quality, packaging and suppliers services; suppliers on the other hand are beginning to see a fall in their profits when selling to modern market channels. In turn, suppliers are expected to make more investments as consumers. This can be regarded as a critical point for both suppliers and large retailers.

4.6. Impact on suppliers

There have been recent studies on the impacts of the supermarket`s expansions. Those documents expose the impacts on the local food markets, the processors and to farmers in general. This expansion has made possible the focus on the modernization of the large retail sector, and implications for the procurement systems of vegetables, fruits, meat, dairy products and the processed agricultural products like beans.

In general, the different studies show that the rapid growth of supermarkets is impacting the national production systems. This is happening due to the dissemination changes in their procurement systems. These changes have greatly impacted the processed food producers, and then the semi-processed producers such as meats and dairy. More recently the changes have reached the fresh products in the case of fruits and vegetables.

However, it was found that the impacts of these shifts have been to some extent lesser on the producers of fruits, vegetables and dairy products. Most of the studies indicate that some of the farmers participate in the modern channels of supply through large retailers and food processors. However, small farmers tend to be the excluded ones, given that substantial capital and assets matter.

This situation faces many challenging questions. Why are small and medium farmers to take part of the modernization of agriculture? Is the system just prepared for the commercial elite of large farmers who are the only ones who can participate in this modernization? The facts indicate that supermarket growth in Latin America is leading to the exclusion of small farmers and producers, because they do not meet the supermarket requirements.

The participation of small farmers in local markets is rather different. A household survey made with 150 to 600 farmers in Peru found that they have different channels to reach those markets. They are key players in the distribution to consumers of all fresh products. This implies that fruits and vegetables are at the "bottom line" of the supermarkets growth. However, the situation for farmers and small producers of dairy, meat and processed foods, the situation is totally different as being smaller producers put them into the bottom line.

Supermarkets in South America have a combination of suppliers: (1) directly from farmers, (2) from specialized wholesalers (3) traditional wholesale market. The biggest impact on farmers is when supermarkets use the first two to set up their supply strategies. In that way they pass through channels all their quality requirements. The selection of farmers who directly supply is done by the supermarket or through specialized wholesalers, aiming to maximize quality and minimize the product`s costs. Exclusion of farmers happens with those who do not meet all their expectations.

The specialized wholesalers acting as supermarkets suppliers travel to find medium and large farmers. The suppliers engage with those with sufficient amount of goods and those that can fit in the procurement systems. By doing that, the exclusion of small farmers is de facto.

In general, just a third of the asset-rich farmers can participate as supermarket suppliers. There are examples of this reality in Peru and Bolivia of that segment compared to small farmers:

1) Their farms sizes are doubled from those with one hectare;

2) their production is doubled: 58% more lettuce produced to those who produce 23%, 91% more basic grains produced compared to the rest with 79%;
3) they are four times more educated;
4) their roads are twice more paved;
5) they are twice likely to have irrigation systems (51% to 37%);
6) they are likely four times more to own a truck;
7) They are more promptly to belong to any organization focused on marketing and production (79% to 42%).

The situation described above is an indicator that this small sector of farmers on the other hand uses more labor intensive practices. They have to do this to meet the supermarket requirements. They can hire 2.5 more times for the field work than the other farmers. This is especially for vegetable and fruits sorting and the packaging. They have up to four times of opportunities to reap twice in a year. A simple lettuce producer, who shifted from selling to local markets to channel his products to supermarkets, had to make these adjustments anyhow. This small group of farmers was able to hire 20 additional full-time workers for two seasons. Then the excluded small farmers cannot be included in these clusters, only if they became employed by these farms.

Under such circumstances, those farmers who sell directly to the supermarkets tend to be the elite in terms of assets. However, at the early stages of the supermarket`s penetration, the exclusion of small farmers with few resources must be analyzed. Now only 10% to 30% of rich farmers are selling through modern channels. But this was zero more than a decade ago and with the growing phenomenon, these percentages will increase for sure. This is a big challenge for those small farmers with little resources and few or no assets.

4.7. Implications of different policies and strategies

Supermarkets have generated different tensions, negative impacts and new forms of relationships among different sectors. These are small farmers, large farmers, consumers, intermediaries, suppliers and traditional retailers. A way of facing the different situation is by creating policies and different strategies with programs that can address some of these challenges.

As a way of addressing this situation, a typology of different contexts is discussed. This can be accomplished by the approach of the differentiated policy context that was developed by Schejtman (1980) to the rural strata. By using this we can establish fully the heterogeneity in policy implementation. He presents the taxonomy of policy approaches that can be applied separately or combined to these different contexts. Then we conclude with suggestions on how to adjust some of the policy instruments facing the different contexts.

4.7.1. Different contexts

There are four categories of variables that define the context according to the analysis of the current trends.

1. The “degree" – wave – of supermarkets’ penetration in the country or any specific zone. So far there are three waves developed and probably a fourth is emerging.
2. The products category: processed food, semi-processed as dairy products, fresh fruit and vegetables and then the unprocessed food.
3. The type of actors, particularly if they are suppliers or small retailers,
4. The level and type of capital assets in the country and the actors.

This represents, for example, the ability governments have to implement polices. These can be effective ways of handling different complaints in the contract`s violations with suppliers and small retailers restringing them to make the necessary investments.

It is possible to establish different polices arising from the four above listed variables.

During the initial stage of the take-off of supermarkets clear patterns are seen. This is what is happening today in countries such as China and India, and a decade ago in Brazil and Chile. It is during their first steps that large retailers immediately impose major challenges to traditional retailers, particularly over small shops that sell processed products. At the beginning, public market sales of fresh products are not impacted.

Since large supermarkets have grown, they are imposing more challenges to traditional retailers. At this moment is not just in the sales of processed food, but for the semi-processed products as meats and daily products. And this is not the end. The new tensions are emerging over the fresh products – vegetables and fruits. These are still largely found in public and farmer markets and street vendors.

In terms of space, in Peru the expansion of large supermarket chains has moved from large cities to mid-sized cities and rural towns. The opportunities they have in these other places are bigger because local governments have fewer capacities to implement regulations. But this expansion poses more challenges to the other sector of the semi-processed food. This was observed in Peru at the beginning of the last decade when they made the path to the modernization of procurements for these types of products.

In recent years, the latest stage is the modernization of procurement for fresh vegetables and fruits. They have started to deal less with wholesale suppliers, and they have shifted their relationship to specialized wholesalers, and make some direct purchases from producers, mainly for broad categories of commodities. On the other hand, opportunities for producers in areas of high value have increased. However, due to the dominance of supermarkets in the retail centers - ranging from 30% to 50% - significant tensions have risen between supermarkets and suppliers.

4.7.2. Differentiated policy instruments

A policy or a focused program can be written in a three-dimensional matrix. Then there will X axis represents the challenges or opportunities, the Y axis focus or objectives, and the Z axis indicates the dimensions of the policies role.

On the other hand, there are two basic sources of conflicts among the large supermarkets, traditional retailers and suppliers:

1) The power inequalities, based on the concentration, scale and use of technology and business practices;

2) The practices and strategies based on that power, such as increasing the initial advantages in regards to price, quality, location, payment and contracts.

There are two main functions in terms of policies:

1) Government regulation versus private codes of conduct;
2) General policies that affect all businesses, including retailers and other unspecified types of businesses, compared with specific practices supermarkets enforce to their suppliers.

There are basic policy actions that have been used to address the two sources of conflicts and challenges mentioned above.

- Competition policy

Governments with the private sector, through self-regulation, have tried to limit the growing power of supermarkets. This has been done through policies that restrict competition and collusion concentration. Countries such as Brazil, Peru and Mexico have worked on this direction with the Committees of Jurisdiction.

<u>- Regulation of retailer's marketing practices</u>

Again, governments and the private sector have contributed with regulations. These are needed to limit the use of power, to restrict the dissemination, and to avoid further market penetration of supermarkets. Simple ways of doing this is trough standards of development and regulation schedules. Rules attached to opening hours and urbanization procedures have been implemented in the past in the United States and England. Much of this has happened mainly after political pressures of traditional retail associations, who are against giant supermarkets.

However, in Latin America this scenario might be different. In general national governments promote the expansion of modern retailers. In order to do that, they have strictly regulated the practices and locations of traditional retailers including public markets and street markets of fresh products. Another policy that drives modernization of this commercial is through Foreign Direct Investment. These polices and the advantages offered by them have contributed largely to the expansion of large supermarkets and hypermarkets in detriment of small enterprises.

The best opportunities have been granted in developing countries. Mainly the most benefitted ones have been the foreign firms that have grown very rapidly during this decade. This is a clear indicator of the facilitation factors that favors the chains in terms of the different policies that affect dissemination practices promoting them, instead of restricting. Between 1930 and 1995 the United States enforced different regulatory measures. Those were far more restrictive than those many Latin American governments are doing during this decade in the direction of controlling the supermarket sector.

<u>- Practices regulation of procurement practices and relationships between retailers and suppliers</u>

The rapid changes in the retail sector in Latin America have drawn few regulations. The needed systems that could result in better relationships between suppliers and sellers were not properly created. In the United States for example there is PACA (Perishable Agricultural Commodities Act) that establishes clear competences and benefits for both. The fast expansion of supermarkets has tested the existing legal commercial system. This has exposed the shortcomings and the need to develop fair regulations. These are needed to avoid more crises between these two sectors.

However, this trend might start to change. Countries such as Argentina have developed an emerging approach on the State regulations. In that country conflicts and tensions were better solved after the National government became active with a clear role in balancing the power relationships. This has been a crucial example for those countries that are in the second stage – wave – in the supermarkets expansion.

In Argentina and Mexico there are clear examples to learn from. During 2000/2001 in both countries there were important crisis between supermarkets and their suppliers. The authorities of the Competition Commission appealing the Fair Trading Act, 1983, the Consumer Protection Act of 1993 and the Law on Protection of Competition, 1999, indicated that changes needed to be made. They enacted after a national law to strictly regulate the supermarkets and their relationships with suppliers. Then a Conduct Code for Business was developed and implemented to regulate the different interests of retailers, wholesalers, processors and farmers.

This situation was similar to what happened in 2002 in England. During that year, the Competition Commission encouraged the creation of a Code within the private sector, which later became mandatory to all supermarkets. In Argentina, the established private foreign firms such as Carrefour, reacted and considered that measure as a drastic one. However, in July 2001, retailers and suppliers signed the Code of Good Business Practices. This was the first of its type in Latin America and probably in all developing countries. After over a year (March 2002), that Code - Decree 1 / 2002 - was enhanced and improved with the inclusion of public regulation. For example, this limits the payment periods to suppliers of perishable products within 30 days. This is much faster than the current pay period granted by PACA law in the United States.

The terms of the Privacy Code developed in Argentina include elements that are the best regulations elsewhere and it includes mainly four issues:

1) Enforcement of signed contracts both by retailers and suppliers,
2) Equal treatment among suppliers,
3) Prompt payments and,
4) Cooperation in the development of logistics.

The law includes conflict resolution mechanisms, which seem to be effective and have worked in the past. On the other hand, apart from these last elements, the Argentinean Code is similar to the U.S. public regulations included in PACA, with the difference that this has been formulated with and implemented by the private sector. This law from South America seems to be more practical and useful for many developing countries in the short-medium term. In can bring the attention and interest of many commercial sectors to participate in law making when supermarkets are still in the developing states.

Other Latin American countries have started to follow the example of Argentina. Colombia enacted a similar Code in 2005, Mexico adopted one in 2006 and Costa Rica is discussing the creation of a Law. All these Codes are essentially similar to that of Argentina and have followed some parts of the PACA Act regulations in the United States.

4.8. Programs to involve suppliers, wholesalers and traditional retailers

There are regulations in use in other countries which have determined relative strengths for all key players. Supermarkets, supermarket suppliers, other suppliers, wholesalers and traditional retailer's practices have been also be influenced by the rules. By taking the extent of the supermarket`s penetration as an exogenous fact, different programs have been be implemented to: (1) improve the ability of suppliers and wholesalers to supply supermarket chains and (2) strengthen providers, traditional retailers and wholesalers power capacities in the market share and look for opportunities other than supermarkets and / or compete with them. Reardon and Flores (2006) make a distinction between the structural competitions from the personalized competition. The first one is about increasing efficiency of all actors in a generic way to help them to compete in the market. The second one is designed to increase the capacity of providers to perform flexible and specific investments. These two competitions have helped suppliers to meet the requirements of the niche markets for local and foreign supermarkets.

If there were equal conditions for all stakeholders, the situation could be rather different. For example, measures to develop a structural competition could improve the total purchasing costs in supermarkets. Therefore the effects of dampening after inflation in food prices resulting from the supermarket modernization can have positive results. All this will result in equal opportunities for traditional retailers, wholesalers and suppliers when they engage with the modernized retail sector.

- Structural competition measures might include:

1) General regulations of business practices related to contracts and competition;

2) Simplification of regulatory procedures to facilitate the registration or formalization of the supplier in order to have better access to modern markets;

(3) Improvement of the infrastructure of public markets and others alike in order to: (a) increase market alternatives for small farmers and make them competitive, (b) to support traditional retailers to compete with the emerging specialized wholesalers, (c) assist the public and wholesale markets to exist, as long as possible, as a viable source of supply to all consumers and to be competitive with the large supermarkets.

In turn, custom competition implies additional measures to make available to those suppliers different types of capital sources in order to have the capacity to supply the supermarkets. Governments have had the options of providing the "market intelligence capital" to suppliers, while facilitating trade links between them and the supermarkets. This has included:

1) Market information focused on trends detailed in the food industry, and facilitating face to face meetings between retailers and suppliers in bilateral and multilateral meetings, business roundtables, conferences, etc..

2) Additional investments by the government to help providers meet the requirements of supermarket chains and, thus, to enter this market.

The interaction with small farmers has had higher transaction costs. Many farms and small companies lack the necessary resources to extend their contacts. By facilitating investments to this sector the government has contributed by large. Small producers are excluded because they do not have access to external sources of credit. Sharing information by using different approaches has overcome asymmetries, but this has not been resolved by the simple fact of exposing them alone to the market.

In Mexico, the government has developed different services. The best experience is ASERCA (Support Services for Agricultural Marketing of the Secretary of Agriculture). This office has a direct marketing program that facilitates linkages between local suppliers of fresh vegetables and fruits, and supermarket chains in Mexico and other countries. ASERCA has facilitated the linkages between some of the grape growers' associations and several of the nation's largest chains. Other role the institution has taken is to offer trade shows where farmers meet the procurement officers of the chains and suppliers. Producers and different other associations come to this annual event from all different states of the country. This is called the Annual Convention of the National Association of Supermarkets and Department Stores (ANTAD).

At the same time, other efforts have been implemented. For example, ASERCA in coordination with other offices of the Secretary of Agriculture offer programs to link suppliers with Mexican supermarkets as part of their efforts to promote the market opportunities. In Michoacan, ASERCA has contributed to build linkages between small raspberries farmers with Sam's Club (Wal-mart) in Mexico). This office has facilitated meetings, has provided support to the partnership by investing in cold chambers, has offered trucks with packing facilities and has guided the practices for commercial tracking. At the end this governmental work, could be a big gain for these large supermarkets that are in the best positions.

Brazil has another experience. "Fabrica do Farmer" in Parana is a program that has been sponsored by the State Government and the World Bank to support small food processors to sell to the supermarkets in the nearest cites. They also sponsor gatherings between suppliers and the chains. Another part of the program is to provide technical assistance in processing and packaging, marketing training and contacts developing. They also have helped to renew and expand the licensing and certifications in order to do the business at the regional level. This has impacted in lowering the transaction costs of all the formal requirements and status required by the supermarkets.

There are other experiences where governments work to stimulate local suppliers and exports. One of the ways is by facilitating partnerships with retailers, through procurement systems of the global and regional chains. In 2004 in Brazil, an agreement was signed between Carrefour, the Agency for Export and Investment Promotion and the Ministry of Development, Industry and Foreign Trade. The main commitment was for the company to promote Brazilian fruits both in their local and foreign stores (Europe, Asia and the United States). One year after in 2005, the Metro chain conducted similar agreements with Indian and Vietnamese authorities. Recently Wal-Mart entered a similar agreement in India. The Malaysian government has a program under their Federal Agricultural Marketing Authority (FAMA) which organizes links between local suppliers and foreign hypermarket and domestic supermarket chains. These producers and local suppliers can become competitive suppliers and they can enter into the regional procurement systems of the global chains. The question here is how many can take advantages of this niche, as there will be many of them left out.

Another option for governments has been to facilitate the creation of "organizational capital". There is no doubt that supermarkets do not generally work with individual small farmers. They interact sometimes with consolidated associations or group of suppliers as way to reduce the transaction costs. A challenge is for traditional cooperatives, as supermarkets label them as non viable because they see problems of opportunism (free-riders).

Governmental authorities have decided to work with this new generation of cooperatives and other farmer associations. They have designed a new program with a new market focus. It has been found that especially small and medium producers are crucial for the supermarkets profits. They can reduce the transaction costs incurred by retailers and processors - multiple vendors - on a coordinated basis.

In Chile the results have shown a different story. Berdegué (2001) found that the creation of organizations of small farmers and export-oriented modern markets were necessary but not sufficient at the local level. It has often taken enough time and considerable resources to only benefit these small groups in the production clusters. Those who have the opportunities must also achieve critical volumes to enter in that market. In order to do that, they need to perform a series of key investments in administration and business organization, constant updates, flexibility, adapt to the specific customer needs and report constant growth, all this in order to stay in business. Many of those who start this path do not reach the desired level for remaining dynamic in this market for long time. Whereas those who have better chances, they can see the rewards of the niche. At some extent is what has happened to a meat producer cooperative experienced in Costa Rica.

A third option governments have is to build "capital standards." This has been done as a way to equalize public standards with private processors and supermarkets. By inducing widespread practices where it shows the standards developed by governments, the private sector has begun adopt them. A good example of this is the dairy sector in Argentina, even when not related to the supermarket suppliers. The governmental institutions worked to at least converge with the more demanding private standards, and they were gradually doing this by stages. The aim was that more farmers were upgraded, expanded and succeeded, both, exporters of modern providers and small businesses. Obviously, the difficulty has been that the raising standards tend to exclude those without the means to invest. This is a crucial dilemma governments are facing as the results have not been equal to all the interested parts, and to those most negatively affected.

A fourth option for governments was to create "equity in accessing financial services" to providers. Crucial elements for suppliers faced to competition include: the reduction of the market risks faced by retailers, combination of an increased access to financial capital for working resources and capital for investments in equipment upgrades and other physical improvements. There have been some recent experiences of this with the innovations of local supermarkets and local suppliers. However, these are not enough.

In this direction, large retailers and wholesalers have become a type of intermediaries. They work between commercial banks and their smaller suppliers to solve problems of access to credit. Suppliers provide some sort of guarantee that will make possible that, small and medium farmers will repay the loans taken. There are examples of this with Gigante in Mexico and Metro in Croatia. Both models take part under certain circumstances and sometimes the results have not been the best for producers.

This has been undertaken more by large supermarkets chains when governments are stepping down some of their responsibilities. For small and medium farmers with no access to credit from commercial banks, they enter into these options with supermarkets as they are pressured to modernize their sales. Again, in the case of Mexico also there have been some innovative activities taken by the Government to facilitate direct trade between suppliers and supermarkets. At this point probably some other countries could be looking at this experience Mexico has developed. Part of their strategy follows like this:

- First, SAGARPA has made possible changes in the payment duties. Suppliers are obtaining cash immediately rather than waiting long periods for their payments. This is in particular to the sales to local supermarkets owned or foreign firms.

- Second, as part of the initiatives already discussed, SAGARPA, the Mexican government is working to incorporate Financiera Rural - which replaced BANRURAL, National Rural Credit Bank - to pay small farmers immediately. Later, they invoice the supermarket chain.

- Third, the Agricultural Council and SAGARPA are developing a project to establish an evaluation of credit scoring similar to the Blue Book or Red Book in the United States. The aim is to demonstrate to local and foreign supermarkets that domestic suppliers have solvency. In that way, the risk perception is reduced and they will be encouraged to deal more with local producers.

While the government's program options are listed above, problems are emerging. All the actions taken so far appeal to helping providers overcome barriers to supply local supermarkets. However, there are some challenges to be found.

An important fact to take into account is that the costs for minimum investments to enter the modern channels – large supermarkets - may be considerably higher for traditional markets. Therefore an increase in the governmental budgets is much needed in order to assist more farmers who do not have the ability to enter into those modern channels. Also the assistance in the different types of investments should be done with equity. The Chinese government has faced the problem directly by supporting the development of "dragon enterprise head" that will lead the supply sector to be grouped and then be able to develop relationships with modern retailers and oriented export markets. This is the same approach taken by the various commercial “linking” programs discussed above, as the implemented by the local government of Michoacan, Mexico.

Many of the examples cited have happened when governments with resources have the will. In other small countries, governmental institutions have to search for funding to implement these programs. In doing that, Governments end up depending on the donors' proposed solutions that tend not to be sustainable in the long term. For example in Honduras, the program budget of the new Millennium Challenge Corporation (MCC in its acronym in English) sponsored by the United States as a way to increase their commercial ties in the country, has increased by three times the annual budget of the Ministry of Agriculture of Honduras. This is a very artificial solution because in the end this is not distributing resources.

Another problem that can be distinguished is the one coming from a political side. This will appear with the consolidation of the food industry, when the market becomes increasingly concentrated among only a handful of retailers. Sooner than later, governments providing large programs that create public goods for many vendors and buyers will find that in fact the assets that may be public in accessing the supply side will adopt a semi-private nature. As a result, this will be another public investment for business elites.

Supermarkets in Peru

In Peru exists a large chain of supermarkets named Peruvian supermarket. This is the only supermarket chain that has 100% of Peruvian capital. Lima has the second biggest supermarket, ranking more than 35% of the market share.

The history of this company in Peru goes back to 1993. The Chilean capital firm Supermercados Santa Isabel SA, decided to invest in Peru as part of its business expansion. The company grew rapidly, but problems arose mainly from the Peru economic crisis in the late 90s. Then this Chilean once owned company was acquired by Ahold from the Netherlands. They bought their participation in Peru and Chile. Ahold made major reforms in the company, and continued under the same name, but created new formats as Minisol Plaza Vea (now Mass). In 2003 the Dutch company withdrew its participation from South America, selling its share in Argentina and Chile to Cencosud, [3]. The chain in Peru - Supermercados Santa Isabel – was totally acquired by the Peruvian capital firm Interbank (a popular Peruvian bank). During that time, the bank was a shareholder of the Corporation Wong – another large supermarket- but this acquisition led to a rupture in the relations between both firms. After this, the name of the old supermarkets was replaced by Supermercados Peruanos – Peruvian Supermarkets.

Under that name in 2005, the company started to open more supermarkets. The first was Vivanda in the San Isidro district. Between 2005 and 2009 they opened more than 6 shops Vivanda, and opened two other stores at Plaza Vea and Plaza Vea Super.

In 2007 this company was the first supermarket chain to open a store outside of the capital, Lima. New openings have succeeded in other cities as Trujillo, Chiclayo and Arequipa. Today the company continues its growing plans for a new hypermarket in the Capital, Lima and in the city of Huancayo.

The shareholders are different in the Capital Plaza Vea. In 2006 IFH Retail Corporation of Peru had 1.02% of the shares, but in 2007 went up to 71.49%. Other shareholders are Compass Capital Partners Ltd., Interseguro Life Insurance Company SA and Banco Internacional of Peru SAA.

V. Conclusions and Recommendations

4.1. Conclusions

Supermarkets are part of the agribusiness chain.

1. Supermarkets are part of the agribusiness clusters and implement different mechanisms that limit producers. They create real obstacles for local products from small and medium farmers, when these have some opportunities to offer directly to consumers in public markets and local grocery stores.

2. Globalized markets are exclusive. Only few producers can produce and sell to the supermarkets, because only a small highly capitalized group can meet the required qualifications. Most of these are not possible to be achieved by small producers who work different and do not have the needed resources for investments to be made. The integrated chains are vertical and controlled by the supermarkets that tend to be oriented toward centralized purchasing systems. They use the specialized wholesalers in a product category in order to operate exclusively for any specific chain.

3. Some big producers prefer large supermarket chains to deliver their products systems after they meet the quality and safety standards. This benefits the supermarkets as they reduce the transaction costs. These products can be purchased from a vast geographical area and their activities coordinated from the specific region.

Supermarkets can harm their suppliers

1. Supermarkets buy fresh products from agribusiness firms, which in many cases are part of the same cluster. Suppliers have to bring the products to the supermarkets in costly packaging – sometimes from medium farmers – and their payments are made effective 90 days after.

2. Supermarkets have technicalities that work as barriers to a large number of farmer`s associations, and even more to small farmers who never will become suppliers of the chains.

Supermarkets can contribute to impoverish farmers

1. Supermarkets and the programs supporting their clusters do not contribute to overcoming poverty in rural areas. This is because they do not buy foods produced by small farmers or small factories. However, even when they claim to buy from small rural units, they do that by imposing certain conditions – when they are the only buyers – such as setting low prices.

2. There are costs transferred from the supermarket to the producers. By doing this, the chains increase their profit margins, imposing on producers packaging systems, standardization in the product appearance and special presentation that will encourage consumers to purchase in their centers.

Small farmers make the difference

1. It has been indicated that small farmers feed the 70% of the world population. This happens without or little support from Governmental institutions. But in times when supermarkets are increasingly displaying much of the food, only 30% of the people buy their food in these centers.

2. Small farmers and their organizations are important in the food production. They are necessary for the existence of rural areas and for the governance of societies, mainly in Southern countries where still large population lives in rural areas.

Lower prices, but not necessarily healthier products

Most of the processed food sold at the supermarkets are supplied by companies that are part of the clusters in the agribusiness chains. These industries are vertically articulated and their system is highly intensive. For example, when processing and selling the food items they do not care if they are using genetically modified products or transgenic ingredients. They do not pay attention to the many times the vegetables and fruits are sprayed with all sorts of fertilizers and toxic insecticides. Another part is in the meat products that are produced after fattened animals with growing hormones and antibiotics. In this system is very unlikely to produce safe and healthy food.

Consumers can find other options

Globally there has been an expansion of the so-called alternative markets. These places try to make direct linkages between food producers and consumers. These markets in Latin America are flourishing as part of the economic solidarity. Consumers, most of the time, find at these places lower prices, much fresh products and food produced with less chemicals, hormones and transgenics. Another important part is the distribution of benefits and utilities among many more people. Because of all these reasons, these systems are considerably more sustainable and with more viability.

4.2. Recommendations

Public polices that control the role and power of supermarkets

There are many possible actions that authorities can take at the public level. These can be enforced to expand access and opportunities to small producers and other suppliers. Also, consumers need to be favorably considered by guaranteeing their consumer rights, mainly protection of their health.

In the regulation side there are two ways for enforcement: (a) instruments to prevent the market concentration by a few actors and (b) regulations to prevent contract schemes that leave out small suppliers and producers, such as imposed payment systems, requirement of paid promotions, and systems of minimum utility per transaction, and so on.

Another opportunity could be to update the Laws of Trade. These reforms should include the guarantee for greater participation on the side of food producers. They need to be able to decide in the commodity chain to value better their products. They need to take into account all the production costs and the incomes they need to make. In order to do that, they have to articulate the price of the control mechanisms in the commodity chain. Governments should contemplate the creation of a Commission of Inquiry in Trade Practices with the participation of many stakeholders, including the Agricultural Organizations and Consumers. The legislation may contain the following contents:

1. Inserted indexes
2. Reference Price to consumers
3. Market value added by the manufacturer
4. Index of commercial distribution costs
5. Tax credit for good business practices by the commercial distribution agents.
6. Creation of a Commission for Inquiry of Trade Practices (e.g., sale,

losses, payment to suppliers, farmers)

Support to small producer's organizations

This support can be effective in the modernization of their manufacturing practices to be more efficient. This cannot be done without the support of pro-development policies in the integration schemes to new markets. These organizations require funding to grow and become solid and sustainable. In this journey they have to be accompanied and eventually they have to get all the legal support they need to work and act.

Space promotion between producers and consumers

It is important to support some connection alternatives for small producers to the retail markets, as a way to improve their bargaining power and reduce dependence on one buyer which is not considered a good strategy. The idea is to open the access to markets, to avoid as much as possible the dependence on a few brokers, who, like supermarkets, are not very friendly when they know they have the power over others.

It should seek new relationships between producer and consumer organizations to create market spaces that are not just the supermarkets. This spaces should take advantages of lower costs, storage capacity, fresh products and with significant reduction on the used of chemicals (organic products), a clear relationship between the "producer to consumer."

Promote an active vigilance of consumers in the selection of the products offered by supermarkets.

Consumers have the right to a healthy diet. The product labels should indicate if the products have used genetically modified ingredients and whether they have used insecticides and fertilizers which are harmful to health.

• Support to agricultural policy measures that promote responsible consumption.

• Report dumping on trade conducted by which large corporations engaged in commercial sales of agricultural products as a way to low down the production costs, which adversely affects / producers and consumers as / as. (something missing here?)

• Strengthen the monitoring of imports of goods from other countries through the establishment of protocols to guarantee health (safety and quality). There should be an effective and appropriate verification of the quality and safety constraints to those products banned within the

European Union. Similarly there should controlled routes of entry for each of the imported products and the conditions in which they are performed through the unification of criteria regarding to the health protocols.

Revitalization of local markets

Markets are important places for wealth distribution. These markets in small and large towns and cities need to be revitalized. There should experience new direct marketing initiatives from origin to destination. This will enable farmers to include more values added and consumers can find the prices affordable. Municipalities are the first responsible for providing the space for the development and installation of these markets.

The support should establish new relationships among farmers, producers and consumer associations to develop and strengthen the rights of everyone in the food system.

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