

Global supply chains in fresh vegetables economics essay

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Name: Institution: Over the last decade, the production of horticulture has rapidly grown in developing countries. Fresh vegetable business brings exporters and producers in developing countries together with retailers and importer in developed countries. In the majority of developed countries, for instance in Europe, large retailers play a dominant and decisive role of processing and production restructuring of fresh groceries export from developing countries. Therefore, the specified requirements for quality, cost, production variety, food safety, innovation, as well as quality systems, assist to determine the kind of actors that have the potential to access market power. The control exercises over the trade of fresh vegetables by supermarkets in developed countries has apparent consequences for exclusion and inclusion of exporters and producers of various types, as well as for long-term perspective in the leading countries producing vegetables. On the other hand, dietary habit changes that stem from the increase in health awareness, in addition to convenience of food demand, have increased vegetables and fresh food consumption in the world (Dolan & Humphrey, 2010). This essay studies the global supply chains governing the market power in vegetable production. The essay also examines how strategies for competition of supermarkets have resulted to specific structures of governance that not only determines the kind of vegetables produced, but also the type of quality and production system used, the location and the extent of processing post-harvest, as well as the industry of horticulture in the producing countries. According to Burchell (2003), the concept of international commodity chains is one of the approaches that result to relations of firms that draw on the easy idea that, production,

design, and marketing of produce comprises of a chain of activities that are divided among various enterprises. A chain commodity can be defined as the production, and labor network whose outcome result is a final commodity, and apply it in transforming the economic organization of the world. Burchell further asserts that competitive advantage can be perceived as an increasing function of how best the organization can manage the entire system. Also, linkages do not only link activities with the company, but they also develop independences among firms, suppliers and chains. The governance exercised by companies has an impact not only for the exclusion and inclusion of organizations in the firm chain, but it also impacts the opportunities they possess for upgrading, thus moving into functions that are more sophisticated within the chain of supply or into producing commodities that are more sophisticated. There are several reasons as to why global supply chains in vegetables are determined by various factors. One of reasons is that there is an increase in the employment of strategies for product differentiation in industrialized countries' markets. This implies that retailers have the potential to derive a competitive advantage from the sale of non-standardized products not generally obtainable in the market competing for price, reliability, product quality, product variety, and innovation speed. As a result, this strategy of competition raises the necessity of the power of the supply chain. Alternatively, the supplier needs information that is more complex regarding the shift in the requirements, in the market, and help in meeting product specification changes. Also, the risks that sellers can impose, such as products with poor quality, delays, as well as deliveries are considered (Burt & Sparks, 2003). The other reason is

that the requirement for the market power for the supply chain of vegetables increases when countries that are developing and are key producers encounter difficulties in attaining the developed country market requirements. Usually, the greatest problem that can be associated with selling manufactured exports from developing nations is that the products are quite different, that is, products to be exported to developed countries are different and of high quality as compared to those meant for the domestic market. On the other hand, the necessity for market power is reinforced in some market by the increase in concern with environment, labor, and standards for product safety, NGO and government pressures. As a result, the responsibility of retailers increases with what occurs in the chain of supply (Lambert & Cooper, 2000). Laseter and Oliver (2003) assert that the chain value of vegetables linking consumers and supermarkets in developed countries with farmers and exports from developing countries has been affected directly by the retail concentration process. For instance, previously imported horticulture products were primarily channeled by wholesale markets, the biggest retailer in the United Kingdom currently controls between 70 and 90% of fresh grocery imports from Africa. Therefore, the dominance exceed by supermarkets in food retailing in the UK reflects a wider retail concentration process that can be associated with drastic supply chain transformation. Supermarkets exercise escalating influence on product chains in a broader variety of products. They invent their own brands and develop logistic systems that are sophisticated thus playing a decisive role in supply channels and developing products. Large retailers target in avoiding express participation in production, but specialize

in the process of marketing, and supply chain organization. Fresh vegetables and fruits are a key area of supermarkets competition, and features of competition existing between supermarkets are decisive for the drastic development of trading groceries. While food produces in general are income flexible, vegetables can be purchased by higher-income consumers disproportionately, and it is crucial in retaining and attracting customers. Therefore, they are regarded as destination category, that is, the customers switch stores. On the other hand, vegetable produce is practically all own brand and; therefore, they can apply considerable control and influence. As a result, the market of groceries has doubled (Baas, Potten & Zwanenberg, 1998). In global supply chains, the position of the chain plays a vital role in determining the power of the actors in the market. Supermarkets emphasize health food, fresh, clear of preparation, as well as innovation so as to attract middle class, high-spending consumers. These competitive strategies emphasize quality, consistency, variety, processing, produce combination, packaging, supply reliability, and price. A competitive strategy that is based on packaging, processing and product variety could, in itself, position hugely increased demand on the chain of supply. On the other hand, supermarkets have met regulatory requirements by developing systems that permit products to be located in the shelf from the field. Supermarkets make a crucial decision regarding chain positioning. Even though, they assert that they rarely respond to the demand of the customers and obligations of the government, they make strategic decisions regarding response to pressure. This can be observed in the variety of produce and presentation types offered to consumers, although imitative behaviors try to reduce the

differences among competitors. Therefore, supermarkets both shape and anticipate the needs of the customer and make decisions regarding the meeting of needs. On the other hand, importers devise presentation ideas and new ideas, but they must be approved by the buying supermarket (Dijk & Trienekens, 2011). In order to achieve a continuous dependable supply of a changing and a broad variety of products for diverse countries globally, it requires a supply chain that is sophisticated. Therefore, supply chain governance ought to deliver the requirements of performance. The governance has two parts: supply chain structure specification, and a system that makes certain that the actors of the supply chain meet the performance standards required (Burt & Sparks, 2003). The tightness that exists in supply chain linkages does not imply the presence of reciprocal reliance between suppliers and supermarkets. Such relationship can be frequently durable; however, every supermarket will resource from several fresh vegetable importers. The manner in which orders get distributed between suppliers differs according to the offered prices and; therefore, supermarkets switch between fresh vegetable suppliers. Equally, importers will also source from several countries, and as discussed above, they might be motivated by supermarkets to establish supply sources that are competing. Usually, supermarkets have volume requirements that vary. For instance, when products get promoted, or when there is an unforeseen demand peak, it might be necessary to look for additional suppliers, and in these conditions, the level of supervisions will get low. On the other hand, a high control level is effortless to exercise when there exist a severe symmetry power between suppliers and supermarkets (Laseter & Oliver, 2003). Dijkstra (1997) argues

that meeting the standards of performance profoundly influences the global supply chain. Usually, if the supply chain is supposed to meet the standard requirement placed on, its performance ought to be monitored, as well as systems elected to make certain that suppliers do and can meet the performance standards. For instance, exporters and importers desiring to supply the United Kingdom market require monitoring systems that make certain they comply with the quality of the product and the legislative requirements. Exporters ought to be updated on the legislation of UK related to residue levels, pesticides, as well as food safety to make sure sufficient hygienic facilities and safe clothing on the site are ensured. Alternatively, supermarkets apply exclusion and inclusion decisions to make certain the standards are met. Prior to including the supplier in the supply chain, it is a rule to audit its facilities, which ought to demonstrate that the requirements are met. This implies that extreme poor performance or key lapses in safety standards and food hygiene can result to the suppliers getting excluded from the supply chain. The process of auditing and monitoring of processing and production systems is done by importers and supermarkets (Stevens & Kennan 2000). In developing countries, for instance Kenya, the horticulture industry has declined on the small export and smallholder production firms, and thus, it is dominated by some large exporters sourcing majorly from large scale units of productions. While some of the exporter and producers have benefited from the use of direct market sales because of elevated access to product and market information, the majority of exporter and producers have stopped the venture (Burchell, 2003). There exists a substantial growth scope in the sector of fresh vegetable export. The market

continue to expand implying that there exists opportunities for firms to be overseas market players. However, the foremost determining factor is that inclusion in the supply chain is subject upon meeting the stated requirements. However, several factors limit the producers and exporters in becoming the leading player in the global chain (Barrett et al., 1997). The other factor that determines power in the market is the capability of the organization. Usually, the need for quality consistency, supply reliability, as well as due diligence becomes a burden on the majority of producers and importers. The producers are required by supermarkets to manage both the processing and growing systems in order to produce a supply that is reliable and of high quality. Superior management along the supply chain is vital to obtain good quality products and stop later deterioration. Therefore, this requires both managements and in-house systems control of suppliers, and exporters ought to prove that they possess the essential control mechanism put in place. On the other hand, regulatory requirements like due diligence need suppliers to manage chemical use, undertake audit, as well as develop the procedures of monitoring. In addition, suppliers are required to allocate resources for managers to train personnel on safety, hazards, quality and various aspects of value assurance and establish tolls for monitoring and the criteria for evaluation to make the overseas customers satisfied. Large exports have the potential to invest in the systems of management to meet the requirement whereas small exports have inadequate resources to make certain that compliance and systems of management in which accountability can be traced are achieved (Cox, 1999). Hobbs (1996) argues that in the supply chain of vegetables, the power of the market among actors has

shifted from the activities that might lower expenses to the ones that will create value in the supply chain. Therefore, there exists an increasing tendency to set in motion functions that add value back to the source of supply chain. Currently, substantial quantities of products sold in multiples are bar-coded and packed to differentiate varieties, product, suppliers and countries. The source suppliers are responsible for such activities and; therefore, they require significant investments in equipments and facilities that handle perishable goods. Usually, to add value to vegetables requires intensive labor, but the supply source countries have cheap labor at their disposal. Therefore, the process reduces packaging in consumer countries and makes it easier to discard defective products in the source.

Supermarkets emphasize on the capability of logistics, an aspect that places up-to-date premium market information in the chain of supply. When there is a less input provision number, retailing and processing giants get situated between several consumers and producers thus, giving them an amount of influence that is disproportionate on the quantity, type, quality product location, and product price at the stage of production, as well as the entire food system. An oligopoly will emerge when many consumers confront fewer retailers, and oligopoly will emerge when several suppliers confront few retailers. The power of the market equals to the oligopolistic power.

Therefore, a firm can only attain competitive advantage if it performs strategic vital activities less costly, different and better than its competitors. Every firm coexists in a broader stream of events, thus mutuality and cooperation benefit both suppliers and consumers. The cooperation of buyers makes certain that the supply chain actually works as a firm

extension. On the other hand, an increase in the dependency of mutuality among vegetable suppliers implies that it will be hard for competitors to enter. Thus, supply chains that are successful are those desiring to attain a win-win situation on the basis of trust and mutuality. The power of the market permits firms to attain the power of the supply chain. These sanctions the firm to extort quality improvement and costs over the dependent of suppliers, as well as increase its share of the revenues gained in its market above the depended customers (Swinnen, 2007). Innovation and the relationship among importers also play a vital role in the chain of supply. The horticulture industry fosters the importance of products diversification and development as it is a source of competitive advantage; therefore, innovation is a key security and power source in the supply chain of vegetables. Those suppliers who assume accountability for packaging and product innovation significantly advance their significance to the supermarkets; thus lower the risk of inclusion and substitution from the supply chain. On the other hand, the relationship that exists between importers and exporters is vital for establishing innovation, more especially when the information regarding the preferences of the customers and specifications of the product gets transmitted through dedicated suppliers' closed channels (Padgett, 2012). The other aspect that plays a vital role in the chain of supply is security and upgrade. Usually, the majority of vegetable exporters struggle to keep up with the trends in the market, as well as best practices in the horticulture industry. Some have managed to establish intensive relationship with customers overseas and put forth greater influence over the chain of supply through the integration of

importing and freight forwarding activities. As a result, the exporters, as well as producers have diversified the outlets markets, providing products year around to supermarket chains, as well as increasing their sales. These exporters and producers acquire a wider variety of functions and secure a position that is valuable in the supply chain of vegetables. Therefore, this is an indication that the opportunities of upgrading have partly risen from repositioning the supply chain of vegetables by supermarket chain. In the supply chain of fresh vegetables, retailers redefine the ranges of their products and establish the opportunities to upgrade (Lambert & Cooper, 2000). However, the process of upgrading is complex because industries have become globalised and; therefore, exporters face a narrow window to exploit the advantage of the competition. Harland (1996) argues that due to the powers that influence the chain of supply, some of the competitors get reduced to take a subordinate position. As a result, the consumer market demands need them to equate the dominant chain initiatives so as to remain appealing customers. However, the cost base of such competitors is manipulated by a supply chain that is dominant. Therefore, without similar scale advantages, as well as less unit costs, subordinate chains become unable to compete fully on similar terms. Thus, they become followers whose competitive term gets dictated by the leader in the market. In order for the competitors to exploit their position, the return levels attained by dominant chains might fall in the short term when enhancing investment sales are done, but the extent exists in market manipulation and long term profit. The potential of a dominant chain to control competition arises through the application of power to control competition into separate directions,

horizontal and vertical competition. Under this circumstance, retailers benefit from the presence of greater power in the relationship of the suppliers, as well as increased net margins and average gross, thus are capable of retaining the power of bargaining instead of passing it to consumers. Therefore, in case a retail dominant chain evolves, one of the best ways for it to strengthen and maintain its position could be to raise its offer attractiveness to consumers while driving the competitor's cost base. The market power in the chain supply depends in possessing capabilities, as well as resources that are not simply substitutable. As a result, when the competitive advantage is short-term, exporters who are established have protection from the relationship and competence that they have established with time, inclusive of the production of knowledge and the process of post harvest; investments in specific facilities; and relations that are based on reciprocity and trust with the customers overseas. As a result, these capabilities reduce the vulnerability of the producers and exporters to substitution or exclusion from the chain of supply in overseas, or from any other external source supply. However, in the long run, expanding the range of products as well as services offered can be the most secure path to long-term feasibility and continuance of adequate margins. On the other hand, the differentiation of the product might involve a bigger production skill, post-harvest care, as well as logistics, greater capabilities of innovation and substantial capital investment. Thus, it needs strategic thoughts, networking and altering export activities orientation to innovative markets with diverse demands (Dolan & Humphrey, 2010).

Conclusion

This essay has analyzed global supply chain of vegetables. It is apparent from the essay that the chains from global commodities do not merely consist of material flows across state boundaries. However, they comprise of networks showing how crucial decision makers manipulate the supply chain outputs, as well as its composition. The essay has focused on the governance of the vegetable supply chain, identifying the key players or actors in the chain, and how the performance of each actor determines its power. On the other hand, besides demonstrating the chain concept of vegetables as a commodity, the essay has defined the concept of governance and power, differentiating diverse aspects in which the actors exercise power control, as well as the various forms in which power control gets exerted.